YEARS OF PLUNDER

A FINANCIAL CHRONICLE OF OUR TIMES

BY PROCTOR W. HANSL

HARRISON SMITH AND ROBERT HAAS

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TO

M. H. W.

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Life of John D. Rockefeller, by Ida M. Tarbell
Hanna, by Thomas Beer
Morgan, the Magnificent, by John D. Winkler
Forty Years of Finance, by Alexander D. Noyes
The Banking Crisis, by Marcus Nadler and Jules I. Bogen
American Industry in the World War, by Grosvenor D. Clarkson
Iron, Blood and Profits, by George Seldes
New Levels in the Stock Market, by Charles A. Dice
Only Yesterday, by Frederick Lewis Allen
Scapegoats, by Julian Sherrod
Mirrors of Wall Street, Anonymous
Weeds of Wall Street, by A. M. Wickwire
Power Fight, by H. S. Raushenbush
Confessions of the Power Trust, by C. D. Thompson

Prosperity; Fact or Myth, and *A New Deal,* by Stuart Chase

Life and Death of Ivar Kreuger, by W. H. Stoneman

Years of the Locust, by Gilbert Seldes

The Coming American Revolution, by George Soule

In addition to the foregoing, the author has drawn heavily upon the records of the Senate Banking and Currency Committee, whose investigation of Wall Street practises, ably conducted by Ferdinand Pecora, brought out many of the facts referred to in these pages.

FOREWORD

NEW WAYS FOR OLD

SINCE the turn of the century it has been an open question in America whether Business would devour Government or Government would devour Business. During the first half of this period the trend was toward the emergence of Business as the dominant factor. During the latter half the trend has been in the opposite direction. The dividing line was, of course, the war, when for the first time the government assumed complete control of industry.

Relinquishing this control after the war, under the benign influence of the Reign of Normalcy, the government afforded business an opportunity to re-establish itself. It failed. Caught in the maze of a vast inflation of credit,—instigated by Wall Street and carried out with the aid of Washington—business succumbed to the mania of speculation and emerged disrupted and discredited. It is to be doubted that it will ever be trusted to take the helm again.

As we look back over the years that have come and gone since the beginning of the century, the year 1917 assumes an epochal significance. In a real sense it marked the end of the old order. With our entrance into the World War the New Freedom of Woodrow Wilson became an actuality.

Before this the government had been largely in the hands of Big Business. Convinced of its righteousness, honestly enough, it set out to mold the social and economic order in its own image and, to a large extent, it succeeded. Despite the growing rumblings of discontent, despite the opposition of such a formidable force as the first Roosevelt, it succeeded on the whole in making the rich richer, whether or not it made the poor poorer.

For a decade and a half, under the tutelage first of Mark Hanna and later with the aid of Speaker Joe Cannon and Senator Aldrich—twin guardians of the old order—Big Business made unprecedented gains. It consolidated its position. It imposed its philosophy of Rugged Individualism on a complacent world, and in its name it extended the scope of Monopoly and broadened the realm of Privilege. Through an unconscionable tariff system it added immeasurably to manufacturing profits and placed a back-breaking burden on consumers. Through legal trickery or outright seizure it took over the public domain and acquired timber, mineral and water power rights which were a part of the nation's heritage. Through bribery or political influence it acquired municipal railway and gas or electric power franchises, as in a previous era it had obtained railroad rights and had built great systems on borrowed money at costs which were inflated to cover vast construction profits for the promoters and then casually wrecked these systems and bought them back at a fraction of their original cost. Through secret shipping or price agreements it crushed competition and destroyed its rivals. In the race for wealth it adulterated foods, falsified advertising and oppressed labor and in every field it opposed to the last ditch any reform that threatened to cut into

profits or lessen the power of Privilege. When occasion demanded or profit dictated it wrecked banks, looted insurance companies and fostered panic—all in the name of Rugged Individualism. Then, as a final gesture it dumped its ill-gotten gains and tainted properties into the hopper of Wall Street and emerged with vast holdings of watered stock, which it manipulated to its own profit and to the undoing of small investors and ignorant speculators.

"In the end", as a keen British observer, Bertrand Russell, recently wrote,* "America became, in its economic life, an organized whole ruled, for their own profit, by a handful of rich men".

In other words, a system of Organized Plunder.

But the dictators of the old order reckoned without the war and the war wrecked their machine. Commandeering their plants and means of transportation, largely through the instrumentality of their own paid executives, the government took over industry and turned it to the uses of war. Not only that, but it did a remarkably fine job, shattering for once the illusion that Government was incapable of functioning efficiently in the field of private business. When the war ended the government handed back to private capital a well-oiled machine, which, however, was geared up to a production capacity that in time spelled the ruin of industry. For when the short-lived post-war spurt of prosperity had spent itself Big Business was faced with the alternatives of drastic liquidation or inflation on a grand scale. Unwisely it chose inflation and for seven mad years kept the ball spinning at an ever-increasing speed in a hopeless effort to save itself. Buoyed up by rampant specula-

* Organization vs. Freedom

tion and cheered on by the vociferous disciples of the New Economic Era philosophy, it appeared for a time that it might succeed; in fact, it was almost convinced of the efficacy of its own nostrums, but in the end came collapse and business, big and little, found itself prostrate.

That business has fallen from its high estate is due not so much to ruthlessness of purpose as to an inherent weakness in its philosophy. Like the Profits System, which is its economic counterpart, individualism is wholly a philosophy of self-seeking. Ignoring the fact that self-seeking leads to greed and greed to injustice and injustice to retribution, we have sought to rear an economic order which contains within itself the seeds of destruction. For it is impossible to build a world that is fit to live in or a civilization that will endure on the basest human vices or passions.

But, say the defenders of the old order, it *worked.* All about us are the evidences of material wealth and progress. Look at the skyscrapers, subways, magnificent parks and homes. See the automobiles and radios in the hands of working folk. Has any other system ever done so much for the common man?

For the sake of argument, let us grant that it worked —up to a certain point. But in the interest of truth let it also be recorded that when the first real test came it failed miserably. This is perhaps the greatest lesson of the Depression.

As a matter of plain fact, if one cared to argue the point, it is a question whether the system ever really worked. It all depends on whether one looks at the scene from the standpoint of 1929, with a national income of 85 billion dollars, or from the standpoint of 1933, when the national income had dropped some 40

billion dollars with a corresponding decrease in living standards. It depends on whether one stands in the place of the farmer, who had faced declining prices and increasing costs for a decade or more, and the wage earner, whose gross earnings had continuously fallen during the same period, or whether one stands in the place of the investor or speculator, whose dividends and profits had mounted steadily. It was the curse of the so-called prosperity of the Twenties that it was distributed with glaring unevenness. In some fields it was a glittering reality; in others it was palpably lacking.

The essence of the theory behind the Profits System is the accumulation of profits at the top. It is true that, within limitations, its beneficiaries are willing to share their gains. In the interest of larger profits they will allow some small part of their wealth to "trickle down" to those at the bottom in the form of a living wage. But this is Feudalism—with this exception: that in a feudal state the Great Lord assumes responsibility for the lives and property of his retainers, whereas under the existing system they are ever at the mercy of the capricious winds of prosperity. Obviously to attempt to establish an Industrial Feudalism within the scope of a Political Democracy is a contradiction in terms. One must yield to the other. Either we will have to get rid of democracy and accept autocracy—which is another word for Fascism—or we will have to get rid of economic feudalism and accept the principle of government control of industry—otherwise known as regimentation. The sole remaining alternative is collectivism, which thinking people are not prepared to accept, in America at least.

But we are getting into deep water. Let us return to the government. Under the NRA it is evident that

at last Government has swallowed Business and in order to wash down its meal it has taken some potent draughts on the side in the form of other activities of the New Deal. Whether this is for good or ill, it is too early to say, but, as a choice between evils, there is a growing body of opinion which holds that it is the sounder course.

From the practical standpoint, can the new system be made to work? Will it stand the pragmatic test? Why not? its supporters ask. All that they are attempting to do is to set up a planned economy in place of a "hit-or-miss" economy. We are not attempting, they argue, to subvert existing institutions. We do not propose to do away with the right of private property. It is possible, they admit, that they will exalt human rights, but that is not to say that they will destroy property rights, except perhaps insofar as they are anti-social. Nor do they seek to change the processes of government. They accept the Constitution and propose to live under it. Is this subversive? Is it unsound or unpractical?

But, notwithstanding this, it is not to be denied that the philosophy of the New Deal runs directly counter to that of the old order. In fact, there are signs that the new leadership is preparing to discard the Profit motive as a determining factor in its economics. Fortunately, it holds, there are other motives that will serve the same purpose more effectively and more humanely. There is, for example, the Security motive. If we can once convince ourselves that the security of all means the security of each and every one it is possible that we will find a common ground on which government and industry can meet.

Certain it is that the desire for security, or the instinct of self-preservation, is the deepest human instinct. To

deny this or to say, as the old order does, that the predatory instinct—which is the biological equivalent of the Profit motive—is the primary impulse of natural man is founded neither on fact nor on human experience. In his natural state man was not a hunter—he was the hunted. The Hunting Stage of mankind was a superimposed culture which was destined to go the way of other cultures, and to attempt to build an economic system on this discarded remnant of a dead past is an anacronism. Worse than that, it is a reversion to the "reign of tooth and claw".

I

THE NEW CENTURY DAWNS

ON JANUARY 1, 1900, as the new century rounded the turn,* William McKinley was president of these United States. Following a long and bitter political struggle, the "Silver scare" had proved to be merely a nightmare of the Nineties and sound money was safely in the saddle. Bryan had been "knocked into a cocked hat", as Wilson put it later, and Capital sat down to survey its hard-won gains. Be it said also that, after wandering about homeless for seven long years, the trusts had found a sanctuary at last in the State of New

* Following the lead of Mark Sullivan in his comprehensive work, "Our Times", we have accepted this date as the starting point of our narrative in order to provide an adequate background for the events that followed, well knowing that the new century did not actually begin until a year later. The year 1900 was the last year of the nineteenth century, but it was marked by stirring events whose consequences were to be reflected in the succeeding era, including the adoption of the Gold Standard, which put an end to "Free Silver" as a political issue and the emergence of Theodore Roosevelt as a national figure. At this time Calvin Coolidge was making his start in politics in a small New England town, Herbert Hoover was a cub engineer in China and Woodrow Wilson was a professor at Princeton. Franklin D. Roosevelt was still a student at Groton.

Jersey and all was well again in Wall Street. It was a time of promise for Big Business.

Meanwhile, in other parts of the world, events of moment were taking form. England was still muddling her way through the troublesome and unpopular Boer War, from which it was not to emerge the victor for another two years and then only at the cost of many lives and £100,000,000 in treasure. In Windsor Castle Queen Victoria was entering upon the last year of her reign, her eyes already turned longingly toward those bright shores where the beloved Prince Consort stood beckoning, while the future Edward VII made ready to write the word "finis" to the long, resplendent Victorian Age.

Taking advantage of Britain's absorption in the Boer War, on this same January 1 on which our narrative opens, the boisterous young Kaiser delivered himself of his first manifesto calling for a greater German navy.

"Even as my grandfather labored for the army," said he in his high-pitched, strident voice, "so will I, in like manner, carry on and carry through the work of reorganizing my navy, in order that it may be justified in standing by the side of my land forces and that by it the German Empire may also be in a position to win the place to which it has not yet attained. With the two united I hope to be enabled, with a firm trust in the guidance of God, to prove the truth of the saying of William the First: 'When one in this world wants to decide something with the pen, he does not do it unless supported by the strength of the sword'."

Fateful words, these seem, in the light of later events.

On this side of the Atlantic, these thirty-odd years

ago, the country was about to emerge from a depression which, in point of severity, has been exceeded only in our own times. Since the early Nineties the country had been in the grip of "hard times", punctuated by labor troubles, agricultural distress, bank failures and political uprisings. At Chicago, during 1894, the Pullman car strike had brought out both the militia and Federal troops and the injunction had been called into use for the first time as a weapon with which to fight the unions. Two years before, in 1892, occurred a bloody riot at the plant of the Carnegie Steel Company at Homestead, Pa., where seven persons lost their lives and twenty more were injured. At one time or another more than 750,000 workers were on strike. During these five years 1268 banks closed their doors; there were 70,963 business failures, the price of farm products dropped 33%, the general business index 26%. Many looked for revolution. But revolution did not come. Somehow, some way, without the aid of particularly enlightened leadership, the latent powers of the then nation of 105,000,000 people asserted themselves and at the time when this chronicle begins recovery was well under way.

In those vanished days we knew little of charts or curves. Steel production and car loadings had not even come to be accepted as business barometers. But, as the old century came to an end, it became evident that opportunities for employment were increasing. The "Help Wanted" ads occupied larger space in the papers. There was work in the industrial centres and the "full dinner-pail" came to mean something more than a campaign shibboleth. On the farm, too, there was hope. Following the long, lean years of the Nineties, during which he had turned a half-willing ear to strange polit-

ical and economic gods, it looked as though the farmer was coming into his own again. Wheat was selling at 70c a bushel. Corn at 33c. Hogs brought $4.15 a hundred and cattle $4.25 on the hoof. Factories and railroads were getting busy. Stocks were going up.

Reflecting these conditions, Broadway was making ready to earn its sobriquet as the "Gay White Way." Corticelli set up its huge electric sign at the lower end of Times Square and overnight the whole area was winking and blinking. It was not long before the "Tenderloin" began to liven up. The gay young blades from Old Eli and Nassau made merry at Jack's and Browne's Chop House, occasionally straying over to Mollie's or the Haymarket in the late hours. "Florodora" held forth to increasing audiences at the Casino and at the Metropolitan the "Diamond Horseshoe" glowed with added brilliance, while Mrs. Astor ruled the Four Hundred with an iron hand, albeit encased in a silken glove.

So it was in the teeming regions above Fulton Street. Below large plans were afoot. In the sanctum of J. P. Morgan and Company, at Broad and Wall Streets, the U. S. Steel Corporation was already beginning to take form in the constructive mind of old "J. P." Down at 26 Broadway, but a step away, John D. was reaching out his tentacles a bit further; his minions were angling for the control of banks, as a decade earlier the elder Morgan had pointed the way, and the little giant, E. H. Harriman, was feverishly working out his dreams of railroad empire. It was a time of ferment. Great plans were in the making. Great forces were taking form.

Up to this time there had been little that distinguished America from other new societies, aside from the rapidity of its development. It had both the faults

and virtues of a youthful civilization. Following the discoverer and settler, the pioneer and prospector had blazed a path across the continent which had been taken by countless numbers of the old stock back in New England. In a spirit of high adventure they had set out upon the westward trail, pausing sometimes midway to have a "go at it" in Kentucky or Ohio, and then pushing on again, often not to end their journey until they looked out upon the broad waters of the Pacific. It is a curious fact that the mighty task of opening up the West fell largely to the same Puritan stock which had settled New England barely two centuries before. From the farms and hamlets of Connecticut, Vermont, New Hampshire, Maine and Massachusetts poured out an endless stream of men and women who were to become the backbone of the New West. With them and their covered wagons they brought their sturdy spirits and uncompromising notions of right and wrong, a bit of their religious intolerance and, in full measure, their unconquerable will to wrest a home and living from this fair land which their forefathers had found. From other sections of the country drifted in elements of a different sort who, too, fell under the spell of the West—the free and easy southerner, who came out booted and spurred to punch cattle, the trader from the grain centres of the Middle West, an occasional Jewish merchant, the gambler from the river boats and the lawless from everywhere. All in all, it was a motley crowd that peopled the West in the days after the war and they produced a new type of American, perhaps the first American type, the breezy Westerner who did things on a grand scale, whether it was to build a transcontinental railroad or "bet cha a million", as John W. Gates was wont to do.

If the New Englander who went out to the West in the Sixties or Seventies took a notion to come back to the land of his birth for a visit in the Nineties, after he had made his "pile," as he often did, he was more than likely to find that his place had been taken by aliens. Under the influx of a great tide of immigration, which set in as early as the Forties and reached its flood toward the end of the century, Irish and Scotch first, then Germans, Scandinavians and French-Canadians, followed by Italians, Slavs and Jews, had arrived in droves. Settling down in the industrial centres of the East or taking up the waste lands of the Middle West, these strange people wrought many changes in the outward aspects of our civilization. From 1880 to 1914, 22,000,000 of these people came in. Before 1880, nine and a half million. Almost 32,000,000 all told. By 1900, out of a total population of 105,000,000 less than 60,000,000 had been born in the United States of native parents. Out of 95,000,000 whites 36½ million were of foreign origin. Of these 13½ million had been born abroad and both parents of the remainder had been born in other lands.

In all truth, America had become a melting pot, but out of this welter of strange and discordant forces gradually emerged a philosophy, which was to exercise a deciding influence on the destiny of the next generation. To a great extent this was a product of the America that came into existence before the tide of immigration set in. Essentially it was a native product, the result of forces which had been set in motion during, or immediately preceding, the Civil War, but it was tempered somewhat by the hopes and aspirations of the earlier immigrants, chiefly British and German. Broadly speaking, this philosophy was one of individual

opportunity—opportunity free and untrammelled, based upon the assumed right of the individual to seek his fortune in his own way, without interference, supervision or even question from his government. Predicated upon the inalienable right to life, liberty and the pursuit of happiness vouchsafed to all in the Declaration of Independence, it translated happiness largely into terms of wealth and the pursuit thereof into a mad chase in which the rewards were destined for the fleetest and the "devil took the hindmost". By degrees, then, we came to set up the concepts of shrewdness and power as equivalents for speed, and so the race was as often to the wily and ruthless as to the swift. And by these means men became rich and so, presumably, happy, while in more civilized communities the name "American" came to connote a shrewd and often unscrupulous fellow who had lots of money and spent it ostentatiously, without ever arriving at an understanding of the finer things of life. Success—in dollars and cents—was the keynote of this philosophy and freedom to achieve it, each in his own way, its kernel. Uncle Sam became an animated dollar-mark.

That this was a natural, almost inevitable outgrowth of our national life, goes without saying. We were a new people in a new world. Immigrants or the descendants of immigrants but one step removed, in most cases, we had cast off the yoke of an older civilization, which too often stood for slavery. Retaining only a sentimental feeling for the old country, we repudiated its works and resolved to set up a new and better order. Not only this, but we set out to build it overnight, and naturally we built crudely. Along with our blatant ideas of display we cultivated a rude and boisterous sense of humor; we developed the travelling salesman and his endless string

of banal stories; we produced the corner saloon, the gingerbread type of architecture, billboard advertising, comic supplements, hard-shell Baptists, rotary clubs and a host of other nuisances. It is surprising what a lot of absurdities come to the surface in the course of building a civilization. Like the measles, they seem to be the accompaniments of growth.

However this may be, there is no doubt that America had its full share of infantile disorders and it was just about to throw them off at the turn of the century, which found the nation in safe hands, politically speaking, President McKinley having again been returned by the electorate. The opera-bouffe war with Spain had been fought and won; imperialism was triumphant and expansion was in the air. For a brief spell these questions engaged the attention of the people, but matters of more immediate concern soon crowded them into the background. It became increasingly evident that the country was in for a period of good times.

During an almost unbroken stretch of twenty-five years prices had been steadily declining, along with wages and investment yields. Then suddenly the trend was reversed. Overnight almost commodity values took an upward turn and, as the dollar bought less, people spent more rapidly. Fearing a continuation of the movement, manufacturers laid in stores of raw material. They abandoned hand-to-mouth buying and bought ahead. This stimulated production in all lines and almost before the new century was under way the whole country was talking prosperity. True, this talk got a set-back in 1901, when a struggle between two financial giants for railroad control brought about a panic in Wall Street which threatened for a moment to result in national disaster. But the forces of recovery were too strongly

entrenched and the danger quickly gave way to onrushing prosperity. Within another twelve months good times were back in earnest and not even the assassination of President McKinley and his replacement by Theodore Roosevelt, whose ideas were not exactly in accord with those of Big Business, was able to stem the tide.

So stood our world as the first year of the new century came to an end.

II

THE OCTOPUS SPREADS ITS TENTACLES

THE FORCES that came into being during the closing years of the last century were not altogether the product of those years. They reach far back to the beginnings of the industrial era, which followed close on the heels of the founding of the Republic. During the years before the Civil War America was transformed from a nation of small shop-keepers and land-owners, leading a leisurely, undisturbed existence, to a nation of factories, mines and hustling, bustling competition. To the railroads, more than anything else, this change was to be attributed.

During the early years of the last century the typical American community lay upon a natural waterway or cross-roads and was grouped about a few small industries—a blacksmith shop (which was also a tool-making shop), a cobbler or saddlery, a wheelwright, a potter, a tinsmith, a miller to whom the farmer brought his grain to be ground into flour, a general store and possibly an inn. The only means of transportation was the stage-coach or the canvas-covered freighter, the Canistoga wagon, and the canal or river boat. The only forms of power were man power, horse or ox power, and water power. By these means the farmer tilled his land and drew his loads and industry produced and shipped its

wares. Gradually this system was changed by the coming of steam, but it was not until steam was applied to transportation that a marked change in the character of life occurred. As steam-driven machinery came into use one-man shops became several-man shops, or factories, but their markets were still restricted by lack of transportation facilities. It was useless to make more goods than the market within reach could absorb, but the processes of manufacture were cheapened and it was not long before the hand-worker came to find himself at a disadvantage. By degrees, then, the one-man shop was driven to the wall. The cobbler and saddlery gave way to shoe and harness factories, the wheelwright to the wagon maker, the potter's wheel to the pottery, the itinerant tinsmith to the tin-shop or iron works. The blacksmith held his own as long as the horse was a common means of transportation and the miller was not supplanted until he was overwhelmed by the big mills which reached out and bought grain in the field, milled it and shipped it back to be sold at prices that were less than the small miller could grind it for right on the ground.

With the coming of the railroads markets were expanded almost to illimitable extents and industrial organizations grew in size and scope with the expansion of markets. Soon all industries were in the same case as the local miller. Expanding operations cut down the cost of production to a point where the one-man shop, or small local factory, was unable to compete. Month by month he lost business to the "drummer" from the big cities and finally gave up in despair. As the railroads extended their lines out into new areas the small shop was driven out of business and wealth accumulated in the industrial centers.

In the years following the Civil War this process was vastly quickened. The country entered upon an era of railroad building which had had no parallel in any country theretofore. During the Seventies and Eighties, notwithstanding two severe industrial depressions, some 75,000 miles of new track were laid. Promoters and railroad builders made vast fortunes out of the construction of these new lines and their profits were poured back into industrial channels. Soon gigantic steel and coal industries had come into being and Europe began to pour in immigrants by the millions to provide the man power that our growing industrial system required. Despite occasional set-backs, wealth increased rapidly during this period and the industrial fabric continued to expand under this stimulus.

In the meantime the small rural community had continued to decline in importance. Often left "off the line" by the railroad in seeking the shortest route between two points and continually harassed by the growing competition of its larger neighbors, it lost hope. Its younger blood drifted to the big cities, where it was swallowed up in the growing stream of industry. Others moved on to the freer and more open spaces of the great West, leaving only the old "moss-backs" to continue the unequal struggle with the forces arrayed against them. Naturally there was a good deal of heart-burning, a good deal of dissatisfaction with the changing order, and not a little spleen exhibited against the system that had made over life to the disadvantage of the old residents, but their spirits were broken and nothing came of it.

By the Eighties American life had assumed a form which would have been wholly unrecognizable to the visitor of the Forties. Along the Atlantic seaboard and

in the Great Lakes district large cities had sprung into being, in several cases counting their population in the hundreds of thousands. These cities were veritable beehives, teeming with industry and sending out their products to all parts of the world. Centers of wealth they were, dotted with magnificent residences and public buildings and plentifully supplied with high-steepled churches, for in America wealth ever walked hand-in-hand with religion. We are a god-fearing people and live according to the precepts of the Master—so long as they do not affect our pocketbooks. By this time the central section of the country, or the Middle-West, which was a natural point of distribution, had, if anything, outstripped the more substantial, if less aggressive, centers of the East. Long before this Boston had lost the palm to New York and Philadelphia, but now Chicago and Cleveland set up a rivalry that threatened the leadership of the Eastern seaboard. Imbued to the last degree with the money-making instinct, these cities of the Middle West established new standards of progress and aspired to goals that had never been dreamed of before. "Bigness" was their god, bigness in area, in population, in achievement and in the scope of their enterprises.

In the smaller of these two cities, Cleveland, which had become a centre of the coal and iron industries and was looking eagerly toward the oil fields of Pennsylvania, was born and carried out an idea that had a momentous effect on the business and economic future of the country. Almost a score of years before the period of which we write—in 1855, to be exact,—a farmer boy, whose family had sensed the drift of the times and had left their farm in New York State to take up their residence in Cleveland, went to work as a bookkeeper

in a produce firm. His name was Rockefeller—John D. Rockefeller. Being thrifty, he saved his money and soon became a partner in the business. The firm prospered and young Rockefeller invested his profits in the "oil refining business", which was then in its infancy. Watching expenses closely and visualizing more clearly as time went on the growing possibilities of the oil business, again his firm made money. One by one, he acquired partners, names that were soon to become, like his own, by-words for great wealth—Henry M. Flagler, Stephen V. Harkness and Samuel Andrews. Rockefeller, Andrews and Flagler the firm became known, soon to be merged into the Standard Oil Company. This occurred in 1870, at which time the Rockefeller firm was the leading one in Cleveland oil circles and controlled more than one-fifth of the business. The Standard Oil Company was capitalized for $1,000,000, divided into 10,000 shares having a par value of $100 each, of which John D. Rockefeller acquired 2667 shares, in addition to a partnership interest in 1,000 shares held by the original firm of Rockefeller, Andrews and Flagler.

John D. was a shrewd manager and he knew the oil business. More than that, his far-seeing mind recognized the waste involved in the cut-throat practises which were common to all forms of business at that time. Ruthless competition was the order of the day. "Idiotic, senseless destruction", Rockefeller called it and then set out to outdo his competitors in ruthlessness. It was a time when all economists held that "competition was the life of trade", and, much as he disliked the rule in the abstract, Rockefeller proved to be an adept in its practise. Looking toward the stabilization of the industry, he developed an objective of monopolistic control, under which all units were to be brought together

into a single group under one leadership, the group and the leadership to be his own, of course.

In order to bring this about Rockefeller and his associates adopted a device which later came into broader use. They decided to form a "Trust". In its early stages this Trust would scarcely be recognizable as the prototype of such instruments which later came to dominate industry in this country. As a first step he formed a company, known as the South Improvement Company, of which he and his associates acquired control. The chief function of the South Improvement Company was to enter into certain contracts with railroads by virtue of which the Rockefeller company obtained distinct advantages over their competitors in consideration for shipping over the lines in question. Chief among these advantages were, first, certain *rebates,* ranging from 25% to 50%, which reduced their shipping cost accordingly. In other words, having charged the regular freight rate, the railroad agreed *secretly* to rebate a portion of the freight charge. But that was not all. In addition to this, the railroad agreed to allow the South Improvement Company a similar *drawback* on all oil transported from other firms. Thus, the railroad agreed to pay to the Rockefeller company from 25% to 50% on all the freight charges paid by competitors. Between these two advantages, rebates and drawbacks, no outsider could afford to compete with Rockefeller, since these combined savings and profits enabled him to cut prices to a point that could not be met by competitors.

How Rockefeller obtained these advantages has never been definitely disclosed, whether by bribery or threats or through mere "pull", but the business ethics of the times permitted all three. However that may be, armed with these agreements Rockefeller and his asso-

ciates approached their leading competitors and offered them the alternatives of coming into Standard Oil or being driven out of business. If they came in they got a fair price for their properties, preferably in Standard Oil stock. If they refused they were ruthlessly driven to the wall. Out of twenty-six competitors whom they offered to take in twenty-one accepted. The price offered in cash, in all instances, was considerably less than the actual value of the property, but Rockefeller justified this by the state of the oil business, which was depressed at the moment. Besides, as it later transpired, if the seller took stock, as Rockefeller urged, ultimately he got back many times the worth of his property.

Having carried out successfully this initial step in establishing a monopoly and taken the chief units in the Ohio field under his wing, Rockefeller now set out to rivet his control upon the entire industry. The centre of the oil industry was really in Pennsylvania, where the oil fields were located, and its heart was Oil City. Here the oil industry had been born and nurtured into a lusty business by a small group of hardy individuals who looked upon themselves as the founders of the industry, as indeed they were. Rockefeller now turned his guns in their direction, again working through secret channels. The chief advantage which Oil City had over Cleveland was a shipping advantage, arising out of its location at the source of supply. With a single stroke Rockefeller destroyed this advantage. Through his railroad connections he obtained an increase in freight rates from Oil City which more than offset the Cleveland differential. Henceforward he was able to ship oil from Cleveland to almost any point at a lower rate than it could be shipped from Oil City.

Naturally the Oil City people were indignant, but

they were not satisfied merely to fume. They decided to do something. Within a few days they traced the instigation of the freight rate increase to its source. Furthermore, they secured a copy of the charter of the South Improvement Company and published it. Going a step further, they placed an embargo on the sale of oil to the Rockefeller company and followed this up with bitter protests to the railroads and threats of legislation. Frightened at the furor, the railroads capitulated. They cancelled their contracts with the South Improvement Company and for the first time placed the transportation of oil, in the words of their announcement, "upon a basis of perfect equality for all". But the damage had been done. Rockefeller had achieved his immediate objective. He had swallowed up the main refining and distributing units in the oil industry and strangled the rest.

Curiously, the lawyer who played the leading part in the discomfiture of the Rockefeller interests at this time, Samuel C. T. Dodds, later became their chief counsel and figured prominently in the more recent affairs of the Standard Oil Company.

Unwilling to accept his defeat as final, Rockefeller set out relentlessly to achieve his original purpose. Discarding the South Improvement Company as a useless instrument, he formed an association of the Standard Oil companies, under the name of the Central Association of Refiners, and through this medium again put into effect his original rebate agreements. Out of this association, generally known as the "Alliance", evolved the "Trust" in its latterday form. Recognizing the association as a more or less inadequate instrument with which to oppose the increasing attacks on his organization and his policy of monopolistic control, Rockefeller with

the assistance of Attorney Dodds worked out an arrangement under which the stockholders of the various Standard Oil companies deposited their stock, with irrevocable powers of attorney attached, with a group of trustees, under a trust agreement that gave to the trustees full control and management of the properties and provided for the distribution of profits pro rata to the stockholders. By virtue of this device Rockefeller and his associates maintained themselves in full control of all properties in the Standard Oil group and in the face of anti-monopoly legislation strengthened their position to a point where they had secured control of ninety per cent of the oil business by the late Eighties. Following various court decisions handed down in the Nineties against the legality of the "Trust" as a device to secure monopoly, the form was changed to a holding company, but it was not until 1911 that Rockefeller's hold on the oil business was broken, when the United States Supreme Court ordered the dissolution of the Standard Oil Company of New Jersey as a "combination in restraint of trade". Thereupon the company was dissolved and the stock of the thirty-three constituent companies distributed pro rata among its shareholders.

The system of railroad discrimination which was responsible for the upbuilding of Standard Oil quickly came into more general use. Secret rebates became a universal practise among the railroads and were applied both for the purpose of increasing traffic on individual lines and as a means of building up industries in which the management was interested, at the expense of competitive concerns. In fact, as time passed, it became increasingly evident that the chief incentive for large-scale railroad investment lay in the control that it afforded over other industries and this, in turn, led to a general

lowering of moral standards among the personnel of the roads. Following the lead of the management, graft became common among the minor officials and few contracts of any amount were let without huge "rake-offs" to purchasing agents or other officials. By this means it later transpired, through an investigation of the Eastern roads, an official of the Pennsylvania Railroad who drew a salary of only $225 per month was able to lay aside $60,000 or more through gifts from "friendly" coal companies, and a $100-a-month chief clerk was able to invest $75,000 in stocks. An even more flagrant instance was that of Andrew Carnegie who, it has been charged without denial, got his start in this way. As a minor official of the Pennsylvania he laid the foundation of his fortune through such favors from shippers and in return for favorable traffic arrangements secured an interest in various building projects which ultimately put him in the iron and steel business.

But the railroads had other sins to answer for. The greed of their promoters knew no bounds and their stocks were shot up and down on the exchanges like footballs. Struggles for control were of everyday occurrence and control invariably meant nothing more than an opportunity to scalp a profit through stock manipulation. For the benefit of operators on the short side, railroads were wrecked as casually as if they were just so much chinaware and reorganizations became the order of the day. Reflecting this condition, one-quarter of the total railroad mileage of the country was placed in receivership during the depression of the Nineties. Perhaps the old Erie was the chief offender in this respect. During the Eighties Jay Gould and Daniel Drew put on a classic battle for control of this property and the printing presses were worked overtime in order to add to the

stockholdings of one interest or the other. Commodore Vanderbilt was also drawn into the conflict with Drew, who was probably the most conscienceless operator that Wall Street ever knew. The stories of these battles have been told over and over again and they ended in the bankruptcy of "Old Dan'l". As an incident of the struggle, the Erie went through a series of reorganizations as a result of which it finally emerged with a funded debt in excess of $200,000,000, constituting a burden upon operations that kept the road on the verge of receivership for another generation.

Committed to the policy of charging "all that the traffic would bear", with such incidental discrimination in rates as suited their immediate purposes, the railroads put themselves in a position of complete domination over industry. Practically without hindrance they built or destroyed as they saw fit, and up to the Nineties little or no effort was made to control their activities. Notwithstanding the fact that they were common carriers and had been endowed by the courts with the "right of eminent domain", they continued to look upon themselves as private properties, but early during the Nineties, or shortly prior thereto, a different attitude began to develop on the part of a section of the public. That the railroads derived their power from the state and so were properly subject to government supervision was an idea that began to take hold. Starting in the Middle West, it spread throughout the country and soon affected many States. In order to buttress their position the railroads got into politics. Always more or less closely allied with the political element, they now set out to establish control of State legislatures and in many cases they succeeded. They were not over-scrupulous about their methods. Railroad passes were a common

form of exercising influence. In those days few politicians, legislators or their friends ever paid a railroad fare and even in the halls of Congress the railroads openly maintained their representatives, who parcelled out passes as the exigencies of the moment required. Likewise local attorneys who had political influence found the railroads willing and profitable clients. But in the face of this opposition, both open and underground, public sentiment grew and solidified. Starting in Illinois, legislation was enacted in many States for the purpose of controlling freight rates and railroad practises in general, but much of this was set at naught by court decisions, which were uniformly favorable to the railroads. Finally the whole matter was thrown into Congress by a decision of the Supreme Court handed down August 1, 1886, substantially denying the right of the individual States to regulate interstate commerce.

Following this, as a concession to public opinion, Congress passed the Cullom Bill, a comparatively weak and ineffective measure, which, however, created a new instrumentality for dealing with the railroads—namely, the Interstate Commerce Commission. For a decade or more the railroads fought this bill in the courts, on the whole successfully, and in 1897 obtained a decision from the Supreme Court to the effect that the Commission had no mandatory power to fix rates.

There the issue hung until 1905, when the Hepburn Rate Bill was passed under the spur of Theodore Roosevelt and provided for an effective regulation of railroad rates—but in the meantime Roosevelt had ended the inequity of rebating by a separate act and had laid the foundation for a general overhauling of corporate practises. The octopus was driven into a corner.

III

BIG BUSINESS IN THE SADDLE

WHEN the business interests of the country emerged from the election of 1896 with the scalps of the "Free Silverites" hanging at their belts, there is little doubt that they accepted the election as a national vote of confidence. "Green lights ahead" was the signal, as they understood it, and they lost no time in following up their advantage. Taking their cue from John D. Rockefeller, they started a veritable orgy of trust-building, which carried through the Nineties and well into the first decade of the new century. Between 1898 and 1900, 150 industrial combinations were put together with a total capitalization of $3,000,000,000. By 1904 the capitalization of such combinations had grown to $7,000,000,000 and ten years later it had attained a total in excess of $10,000,000,000. In 1891 the Sugar Trust was formed, with a capitalization of $224,000,000; the Agricultural Implement Trust in 1902, with a capitalization of $120,000,000; the Tobacco Trust in 1904, with a capitalization of $150,000,000. The Beef Trust, a rather loose aggregation of five big companies and about twenty-five subsidiaries, operating under a pool agreement which was clearly in violation of the anti-trust laws, got started as early as 1885 and carried on until 1902, when it was forced to suspend operations. And in 1901

J. P. Morgan and Company announced the biggest trust of all, the United States Steel Corporation, with a capitalization of more than one billion dollars.

That these great combinations became possible at all was largely due to the sheltering arm of Mark Hanna, twin guardian of the Republican Party and Big Business. Caricatured far and wide as the "Mother of Trusts", there is no doubt that his influence in Congress and with the Administration permitted these vast aggregations of capital to consolidate their positions.

In the meantime a noticeable wave of protest was making itself felt throughout the country. Notwithstanding increasing evidences of returning prosperity, the small businessman and the farmer alike began to feel that they were in danger of being throttled by these enormous combinations which controlled both the sources and the outlets of many of the necessities of life. The small businessman feared that he could not withstand their competition, as indeed he was seldom able to do when their paths crossed. The farmer felt that by virtue of their control of markets they were in a position to fix prices to his disadvantage, as they unquestionably did on occasions. At the same time the public feared their power to establish selling prices at levels that constituted a burden on its limited purchasing power. This impression was heightened by the rising tide of commodity prices which began to assert itself at the turn of the century. As usually happens, wages did not rise as rapidly as prices and the wage-earner saw himself ground between the upper and the nether millstone. Naturally he was vociferous about it and politicians and sensation mongers took up the cry. Soon there was a great to-do, supported by a flood of exposure literature, and in the midst of it the army of discontent found a sympathetic

friend, if not an actual spokesman, in the person of Theodore Roosevelt, who was catapulted into the presidency on September 14, 1901, by the assassin's bullet that took the life of President McKinley.

But we are running ahead of our story. Much water was to flow over the dam before "Terrible Teddy" started to wave the Big Stick in the general direction of Wall Street.

Mark Hanna was a much misunderstood man. Despite the unwavering support that he extended to those business interests which had favors to ask in Washington, he was not a tool of the interests, as often has been charged. As a matter of fact, he was never in favor in Wall Street. The financial district appreciated, and somewhat resented, his ability to "fry the fat" out of the moneyed interests, but his rough ways and crude manners were always a little too much for the delicate sensibilities of the new generation that was coming up in the Street. What could a perfumed elegant like James H. Hyde have in common with the porcine Hanna, whose gargantuan belly shook like jelly when he made his coarse jokes? Hanna was a friend of business; there is no doubt of that. He was more than a friend. He had a deep-rooted, unassailable faith in the competitive system. Conscientiously he believed that the welfare of the country was linked up with the well-being and leadership of industry. For that reason he saw to it that the Republican Party became the protector of business, but in his mind it was Little Business as well as Big Business. For the same reason at times he was willing to overlook the aberrations of Big Business, which he considered on the whole as tending to a larger good, however questionable they might be in individual instances. Hanna himself was not a trust promoter. It is doubtful that he ever

had to do with a promotion of any kind in all his life. He was a builder. A millionaire already when he became a national figure, he was heavily interested in coal and iron, was a street railway magnate and banker, but there is no evidence that he ever used his political influence to further his own business interests. On the whole Hanna was fair-minded. As an employer he dealt rightly by labor. In his entire business dealings there is no record that he ever allowed a dispute with labor to go to an issue. Moreover, he was ever ready to condemn short-sighted capitalists who sought to take advantage of their employees. When George Pullman, for instance, allowed himself to be drawn into the great Pullman Strike of 1894, he did not hesitate to berate him soundly. "Any man who will not meet his employees half way," he blurted out, "is a God-dam fool"—a remark which Pullman never forgave.

Bluff, hearty, good-natured, unshakable in his purposes and righteously convinced of the divine right of business to dictate the terms of life, nevertheless Mark Hanna was probably one of the most disruptive forces that ever appeared on the American scene. By virtue of these same faults or virtues, as one may regard them, he offered an unmistakable target for the enemies of Big Business and, in the name of prosperity and the Republican Party, was often easily, if not venally, induced to further the ends of predatory or conscienceless interests. Under the mantle of his protection the formation of trusts went on apace and their depredations accumulated until even the sounder elements began to look upon them as a menace. Likewise, with the active support of President McKinley, he fostered a tariff system which was developed in the interest of a privileged few and, in the light of later events, led to disaster in the markets of

the world. Conceived originally as an aid to "infant industries", the protective tariff ultimately became an instrument for the extortion of unconscionable profits by industrial giants.

Having won the campaign of 1896 on the "sound money" issue, it was not until late in 1900 that the gold standard was actually established by law. This was largely due to the emergency arising out of the short-lived Spanish-American War, during which all controversial questions were laid aside. Hanna was against the war, it may be said in passing, as "bad for business", and his influence undoubtedly delayed the issue, but the country's moral sense was aroused by the sufferings of the Cubans and in the end he was forced to give way before public opinion. In the meantime, however, by a lucky stroke of fate, two things happened that settled the money question for years to come. During the closing years of the century engineers had perfected a method of extracting gold by the cyanide process which added enormously to the percentage of recovery and at about the same time a great gold strike was made in the Yukon district of Alaska. Supplemented by the discovery of mines in South Africa which could be practically worked by the cheap lode, or deep-reef, mining process, these events actually doubled the world's gold supply within the space of a few years and tended definitely to raise the general level of prices. Likewise, they removed practically the only argument that the "Free Silverite" had in his kit and relegated the whole question to the discard for thirty years or more. Lately it has arisen again to perplex us, but that is another matter.

In order to understand the "sound money" controversy which raged throughout the country during the latter part of the century, it is necessary to review the

course of fiscal developments from the beginning of the Civil War. When the war opened the country was on a gold basis, but for the purpose of financing the war it became necessary to increase the existing circulating medium by the issuance of other forms of currency. Much of this was fiat money, based on the mere promise of the government to pay at some undetermined date without specific provision for redemption. This was a process of inflation and, in accordance with the time-proven rule that cheap money will always drive out good money, it was not long before gold began to go into hiding. The dollar became worth only fifty cents in gold.

Following the Civil War this process was reversed and the volume of currency was gradually contracted. In less than fifteen years paper money was decreased from about $1,000,000,000 to $750,000,000, or from $31.18 per capita in 1865 to $16.25 in 1878. Naturally this weighed heavily on the debtor, who found it correspondingly difficult to find money of any kind, gold or paper, with which to pay his debts. As if this were not enough, during the same period the production of gold began to decrease and this process was continued right up to the late Nineties. From 1865 to 1890 the world output of gold decreased from $129,000,000 to $118,000,000 per annum, in the face of practically 100% increase in population in the United States, thereby creating a further shortage of money. It is not difficult to understand that the increase in the number of people who required gold to pay debts or for other purposes, accompanied by decreasing production, caused widespread suffering and brought about growing discontent. In order to offset this condition at one time Congress provided for the limited coinage of silver and put into

circulation some hundreds of millions of dollars of silver certificates, but this action was undone through later legislation withdrawing the coinage of silver, stigmatized as the "Crime of 73".

During all these years it is to be borne in mind that prices were going down and, conversely, gold was going up in value, so that the farmer who had borrowed $1,000 in the Sixties or early Seventies, when the loan could be paid off through the sale of 1,000 bushels of wheat, found ten years later that it required 2,000 bushels of wheat to pay off the same loan. As it happened, the farm population, or debtor element, was located largely in the West and the banker, or creditor element, was located in the East, and it followed therefore that the two sections of the country were arrayed against each other. The farmer looked upon the East as the "enemy" and the banker looked upon the western farmer as the embodiment of socialism and other destructive forces. In this frame of mind the country came to the election of 1896, when Bryan raised the standard of "Free Silver" and won the Democratic nomination for the presidency by his "Cross of Gold" speech, which is recognized as one of the great oratorical efforts of all time. But the East won the election, largely through the efficient organization methods and liberal campaign chest provided by Mark Hanna, and the silver question was settled, for the time being at least.

So much for the money question. It was different with the tariff. This was a question that had engaged President McKinley's attention in Congress, where his name first came into prominence as the author of the McKinley Bill, practically the only measure of any importance incidentally for which McKinley was responsible during his legislative career. Immediately upon assuming the

presidential chair McKinley seized upon the tariff as a medium through which to establish a national policy and naturally his policy developed along high protective lines. No less than Hanna, McKinley had a deep-seated respect, not to say reverence, for the business interests and of course he was indebted to them for moral and financial support. They lost no time, be it added, in presenting their account for payment and the Dingley Tariff Bill was the result of their combined insistence and McKinley's religious faith in the god-given benefits of a protective tariff. In this he was willingly abetted by Hanna, who saw in the tariff a means of perpetuating prosperity and the rule of the Republican Party, which were one and the same thing in his estimation. The Dingley Bill restored the rates of the pre-Cleveland era and handed a bounty of a good many million dollars to the leading industries of the country. Likewise it fastened upon the nation a system which was later fraught with consequences of vast import and, in the opinion of economists, had more than anything else to do with the depression of the Thirties.

Broadly speaking, the protective tariff was a little brother to the Trusts. In the process of organizing the early trusts their capitalization was amply watered. As a rule bonds and preferred stock were issued to the amount of the actual values involved and the promoters' and bankers' profits were represented by common stock, which had little or no actual value at the time of issuance. Thus, in forming the U. S. Steel Corporation, $304,000,000 of bonds, $432,354,218 of preferred stock and $430,827,908 of common stock, or $1,167,182,126 all told, were issued to purchase outstanding securities in ten corporations to the amount of $841,846,500 and to provide $25,000,000 working capital.

In other words, the bankers took down or distributed a profit in excess of $300,000,000. Not a bad day's work. In forming the Wire Trust John W. Gates is credited with having secured a promoter's profit of $26,000,000 in common stock. There was no banker's profit in the formation of Standard Oil, since this was a personal undertaking of John D. Rockefeller, whose profits were represented wholly by the increased value of his holdings and those of his associates.

During the early days, with a few exceptions (notably Standard Oil, which paid dividends ranging from 40% upwards practically from its inception), the trust managements were hard put to earn a return on this watered stock and the tariff substantially eased their burden by making it possible to accumulate profits which were entirely out of line with previous experience. The pressure on Congress from this source was unrelenting and by lining up solidly behind the Republican Party, which was also the party of sound money, their objectives were accomplished in full measure. So greedy were these interests and so insistent the bankers behind them who looked to increasing earnings for stock market profits, that the process of raising the tariff has continued without interruption, at least during the Republican Party's tenure of office. Thus, the tariff rates of the Smoot-Hawley Bill, which was adopted during the Hoover administration, just prior to the existing depression, averaged approximately twenty per cent in excess of the preceding Fordney-McCumber Act.

One of the chief beneficiaries of the protective tariff was the steel industry, which was dominated by Andrew Carnegie up to the turn of the century. Shrewd, resourceful and ruthless, this peppery little Scotchman founded the industrial empire which J. P. Morgan, the

elder, later welded into the U. S. Steel Corporation. An infallible judge of men, it is said that in his time Carnegie made more millionaires than any other captain of industry, with the possible exception of John D. Rockefeller. It is possible that the real inside story of U. S. Steel will never be known. There are two versions. One holds that the canny Scot, weighed down by the burdens of management, sought to rid himself of his gigantic properties and unloaded them on Morgan at a price. The other says that Morgan took Carnegie's "candy" away from him. Probably neither is right, since it is doubtful that either of two such able men could get the better of the other in a deal of this magnitude. At all events, the deal was one that worked out to the benefit of both principals and strangely it caused no loss to the investor, notwithstanding the ocean of water that was pumped into the capital structure of the corporation. Charles M. Schwab was the go-between in the negotiations that led up to the formation of the trust. One of Andy's boys, smooth-spoken and siren-tongued, he convinced Morgan of the advantages to be derived from the great consolidation and in return was chosen to be its first head, while Carnegie retired to his beloved Scotch hills with some hundreds of millions of U. S. Steel bonds, which later blossomed forth in countless libraries strewn over the length and breadth of these United States. Subsequently Schwab founded the Bethlehem Steel Corporation and assumed direction of its activities, from which he emerged in 1932 to announce that there "were no more rich men".

Following his achievement in putting together the U. S. Steel Corporation, J. P. Morgan became the dominating figure in the financial world. Towering head and shoulders above the ranks of lesser financiers, he

was recognized as the oracle of Wall Street and, by all odds, its first citizen. A power in finance as far back as 1894, when he came to the rescue of the Cleveland administration with an offer to buy $65,000,000 of government bonds, as part of a program to maintain the gold standard, (netting incidentally a profit of $5,000,000 on the transaction), his interests were worldwide and his house took the lead in the vast program of industrial financing and refinancing that occupied the bankers during the first decade of the new century.

As a class, the railroads had been crippled by the depression of the Nineties. Practically one-quarter of the total railway capitalization of the country went through bankruptcy, but Morgan quickly brought order out of the chaos. Starting with the Richmond and West Point Terminal Company, (which formed the nucleus of the Southern Railway), and including the Northern Pacific, Lehigh Valley, Erie and New York, New Haven and Hartford, Morgan put into effect reorganization or refinancing schemes that soon placed the railroads of the country on a sound basis. In this he was helped by the rapid recovery in business that set in toward the end of the century. Gradually his chief interest became centred in the New York, New Haven and Hartford, which he built up into a formidable system, and in the Northern Pacific, where his interest brought about one of the most spectacular and most disastrous financial events of our times—the Panic of 1901.

In his Northern Pacific operations Morgan early became associated with James J. Hill, whose foresight and administrative capacity had been responsible for the development of the Great Northern prior to this period. Together they acquired control of the Northern Pacific —then a bankrupt "streak of rust"—bringing some

11,000 miles of track in seven northwestern states under their joint domination.

In the meantime another railway financial and operating genius had come to the fore in the person of E. H. Harriman, who had accomplished even more notable results in reorganizing and building up the Union Pacific. Despite his obvious abilities, Harriman was not the type of man that appealed to Morgan, who was as firm in his dislikes as in his likes. In recognition of his start as a floor broker on the New York Stock Exchange, Morgan was wont to refer to Harriman slightingly as a "two-dollar man" and on other occasions did not hesitate to call him a "sharper", which in the language of the day meant a cheap fellow, not to be trusted. At considerable cost he was to revise his opinion of the "Little Giant" and ultimately recognized him as an antagonist worthy of his steel. Their first clash came over the Chicago, Burlington and Quincy, better known as the Burlington, which tapped the richest traffic country west of the Mississippi. Hill wanted it as a feeder to the Great Northern and Northern Pacific. Harriman wanted the road to shut off the spread of any other system to the coast. By a quick move Morgan and Hill bought the Burlington on behalf of their two lines, thus leaving Harriman "out in the cold". In an effort to repair the damage he approached them with a proposal to share control, but they rejected it. Failing in this, Harriman set out to wrest control of the Northern Pacific from Morgan and Hill, since the road owned a half interest in the Burlington. Aside from bonds, the capitalization of the road consisted of $80,000,000 of common stock and $75,000,000 of preferred stock, which was retireable at the will of the directors, in which event the common would control the entire situa-

tion. At the time that the battle started Morgan owned some 40,000 shares of common stock, which he figured was enough to control, along with other stock in friendly hands; but this stock did not all stay put. Harriman was backed by Jacob H. Schiff, of Kuhn, Loeb and Company, who were his bankers, and together they set out to buy up all available stock, but they worked quietly and had made considerable headway before the Morgan-Hill crowd woke up. Naturally their buying sent the price of the stock up, but this was attributed to bullish sentiment arising out of the acquisition of the Burlington and caused no immediate concern to the Morgan interests. Not expecting an attack of such audacity, the Morgan office was lured by the high price at which NP was selling to unload some of their own holdings. Within a month they sold almost 15,000 shares, practically all of which went to Harriman, and reduced their own holdings to about 25,000 shares.

Morgan was in Europe at the time and Hill was in Seattle. Suddenly Hill got a "hunch" that something was wrong and headed East as fast as special trains could carry him. By the time he arrived Harriman had secured control of the preferred stock and was only about 40,000 shares short of control of the common. Hill sent a frantic cable to Morgan and Morgan cabled back to buy control—a matter of 150,000 shares—"at the market". At the same time Harriman issued an order to buy the 40,000 shares that he needed, also at the market, and the battle was on. "Jim" Keene, a well-known stock manipulator, handled the Morgan end and so well did he work that within thirty-six hours he had the stock, but in doing so he had shot the market up 40 points.

Between them, by this time, Morgan and Harriman

had physical possession of practically every share of Northern Pacific outstanding. Not knowing this and realizing that the stock was selling far above actual value, the speculative fraternity began to sell the stock short and when they attempted to cover found that the stock was cornered. The price soared to $1,000 per share and panic ensued. Other stocks were unloaded at any price in order to obtain funds for settlement of the short account and many of the soundest stocks dropped fifty per cent in value. Morgan and Harriman were generous and permitted the shorts to settle at $150 per share, but that was the least part of the loss. Fortunes had been wiped out in the general collapse of the market and for a period it appeared that the whole country would feel the effects. But the storm passed. The panic was confined to the stock market and the march of progress was quickly resumed.

IV

THE ERA OF THE BIG STICK

DUDE, cowboy, soldier, statesman and master politician, Theodore Roosevelt was certainly the most colorful as he was the most versatile man that ever sat in the President's chair. A scion of wealth, he was never in favor in Wall Street. "Unsafe", he was labelled at the start of his career and in his time he amply justified the term from the Wall Street point of view. Next to Harriman, whom Roosevelt later stigmatized as a "malefactor of great wealth", "Terrible Teddy" was Morgan's pet aversion and it was not long after he assumed the presidency that he set out to justify the enmity of this overlord of the financial world.

Roosevelt began his administration with an announcement that was well calculated to allay the fears of Wall Street. He would "continue McKinley's policy", he stated immediately after the President's death, and this was known to be one of extreme benevolence toward Big Business. Likewise, in his first message to Congress he gave no indication of a crusader spirit, but business was sceptical none the less. Notwithstanding this feeling of insecurity, it is doubtful that Roosevelt at this time had any designs against Wall Street. It was only when the set purpose of the financial powers to rule the government became evident that he started to wield the

"big stick". As it happened, the occasion concerned Mr. Morgan directly and was an outgrowth of the Northern Pacific struggle.

In the final settlement between the Harriman and the Morgan-Hill interests their holdings in Northern Pacific had been pooled through the formation of a gigantic holding company, known as the Northern Securities Corporation. Its capitalization amounted to $400,000,000—"large enough", as Morgan said, "so that nobody could ever buy it". Evidently he was not eager to get mixed up in another such cat-and-dog fight as Harriman had led him into.

Although there is no evidence that the Northern Securities Corporation contemplated any further activity than to hold control of the Northern Pacific and Great Northern, it is quite within the scope of possibility that its ultimate object was to absorb and bring under its domination the entire railroad system of the West. Certainly such a purpose was close to Harriman's heart and it is likely that Harriman would have been the dominating factor in the management, since he had the peculiar faculty of being at the head of the table wherever he sat. "Let me be but one of fifteen men around a table", he once said to Otto Kahn, then coming up as a member of Kuhn, Loeb and Company, "and I will have my way". Few men of greater power of personality, more determined purpose or broader vision have ever flashed upon the horizon of Big Business. He was fit to be the running mate, not the antagonist, of J. P. Morgan.

The formation of the Northern Securities Corporation was greeted by a roar of disapproval from the West. To farmer and shipper alike it was just another link in the chain of industrial slavery which was being

fastened upon them by the money powers of the East. But these protests did not avail. Morgan and Harriman went right ahead with their plans. Amid the blare of the press the Northern Securities Corporation was launched and the rival railroad powers turned in their stocks in exchange for stock of the holding company.

Then suddenly, out of a clear sky, sounded a clap of thunder. Through his Attorney-General, Philander C. Knox, President Roosevelt filed a suit to dissolve the corporation, on the ground that it was a "monopoly in restraint of free competition".

When the news came J. P. Morgan was at the dinner table at his Madison Avenue home, where he was host to some of his intimate associates. As he read the despatch his countenance registered profound dismay, which later turned to anger. The next day he took the train to Washington. Bursting in on the President, he expressed his feelings in no uncertain terms. "If we have done anything wrong", he said, "send your man up to my man and they can fix it up". (The typical attitude of Big Business). Attorney-General Knox was there. "We don't want to fix it up", he replied. "We want to stop it".

Taken aback, Morgan asked: "Are you going to attack my other interests, too? The Steel Trust and the others?" "Certainly not", said the President, "unless we find out that, in any case, they have done something we regard as wrong."

That was the last time that Morgan and Roosevelt ever met in private. From that day the financier was Roosevelt's bitterest enemy and he never lost an opportunity to attack him. "Socialist" was the mildest of many scathing epithets that he applied to Roosevelt.

Following the announcement of the suit, there was

a near-panic in the stock market, fostered, no doubt, by the financial interests which sought to put the President in a bad light as a disturber of the business order. But Roosevelt was not to be stopped. The suit was pushed to a quick decision in the lower courts, which held in favor of the government. The real struggle came in the Supreme Court, which was obliged to wade through some 8,000 pages of briefs and records. On March 4, 1904, almost within two years, the court decided against the Morgan interests and the Northern Securities Corporation was ordered to be dissolved. Roosevelt's victory was won by the narrowest sort of a margin. Dissolution was ordered by a vote of five to four, but Justice Holmes dissented from the legal principle applied by the court, making the actual division on the law four to four. Granting that the merger served the purpose of a monopoly, he drew a fine distinction between the prohibition of acts in "restraint of trade and commerce" laid down in the Sherman Act, under which the suit was brought, and acts "in restraint of competition", which he contended were not within the scope of the law. The issue was decided on broad grounds, as may be gathered from the concurring opinion transmitted by Justice Brewer:

"If the parties interested in these two railroad companies", he said, "can, through the instrumentality of a holding company, place both under one control, then in like manner, as was conceded in the argument of one of the counsel for the appellants, could the control of all the railroads of the country be placed in a single corporation. The holders of $201,000,000 of stock in the Northern Securities Corporation might organize another corporation to hold their stock in that company, and the new corporation, holding the majority of the

stock in the Northern Securities Corporation, and acting in obedience to the wishes of a majority of the stockholders, would control the action of the Securities company, and through it the action of the two railroad companies. And this process might be extended until a single corporation whose stock was owned by three or four parties would be in practical control of both roads; or, having before us the possibility of continuation, the control of the whole transportation system of the country."

How nearly this picture conforms to the utility holding company pyramids which came to be an outstanding phenomenon of the post-war financial era.

Naturally Morgan was enraged at the outcome of the suit. Always contemptuous of opposition, he was not accustomed to defeat and to his dying day he never got over the effects of this experience. In his rage he went so far as to permit a director of the Steel Corporation to offer a resolution at the next board meeting, instructing the chairman, Judge Gary who was not unfriendly with Roosevelt and, in fact, was almost a member of his "kitchen cabinet", to make no further visits to the White House, but calmer heads prevailed and the resolution was not adopted.

In the settlement that grew out of the dissolution of the merger, more strife was stirred up between Harriman and Morgan, but it ended in Harriman accepting stock of both Great Northern and Northern Pacific in return for his original holdings of Northern Pacific, which, it may be added, he turned over in the "boom" market that followed at a profit of $58,000,000, so that his passage at arms with the redoubtable Morgan was not without its compensations.

When Roosevelt attained to the presidency he was

not a "trust-buster", to use the language of the day. In fact, he deprecated much of the furor that had arisen over the activities of the money powers. It is possible that the Northern Securities case opened his eyes to the inherent dangers lying in the control of industry by self-willed and self-seeking individuals and the process was undoubtedly quickened by later events, but during the early days of his administration at least, he was not inclined to indulge in radical action at the expense of Big Business. Possibly his attitude was due in part to the fact that the Democratic party had made the trust issue its own and at heart Roosevelt was a party man. He could see no good in Nazareth if the Democrats were in town. As a matter of fact it is doubtful that he had given any real thought to the subject and so we find him in his first message to Congress "straddling", for one of the few times in his life. "There have been abuses connected with the accumulation of great fortunes", he said, "yet it remains true that they confer immense incidental benefits upon others". Then, rallying to the defense of the system which his party had sponsored, he adds vehemently, "It is not true that the rich have grown richer, the poor poorer. . . . Much of the antagonism to great fortunes is without warrant."

But Roosevelt was not to be allowed to remain in this complacent frame of mind. Events moved faster than he did. The Northern Securities suit had barely been launched in the courts when he was forced to enter the lists in another sphere in opposition to the forces of organized wealth. For a decade or more trouble had been brewing in the coal industry. Underpaid and oppressed by working conditions that were little less than inhuman, the miners had formed a union which was headed by a man of fine and vigorous personality, John

Mitchell. Mitchell had been a thorn in the side of the operators. Under his leadership, step by step, the union had been strengthened; the operators had been forced to make concessions. In 1900 the anthracite miners struck for a ten per cent increase in wages and won—largely under the threat to bring about a general desertion of labor from the Republican party during the political campaign of that year. The strike was barely ended when they began to press for further advantages. As it later developed, the miners had real grievances, but it appeared that their case was not to be tried on its merits. On the opposite side were the railroad coal companies, which were headed by an imperious, tactless and short-sighted spokesman, George F. Baer, President of the Reading Railroad, who soon prejudiced the country against their case, if they ever had any. In writing a letter to a citizen who had appealed to him to end the strike he had the misfortune, or ill-judgment, to use the following language:

> "I beg of you not to be discouraged. The rights and interests of the laboring man will be protected and cared for—not by the labor agitator, but by the Christian men to whom God, in his infinite wisdom has given the control of the property interests of the country and upon the successful management of which so much depends".

Promptly he was dubbed "Divine Right Baer" and the appellation stuck.

Following fruitless efforts to adjust their grievances, the miners struck again, in May, 1902. Throughout the Summer no coal was mined and by Fall both coal yards and coal bins were empty. It looked as if the country

would have to go through the Winter without coal, with all the physical suffering and economic dislocation that was certain to follow. In the large cities the price of coal went to $28 and $30 per ton.

Finally the President was forced to take notice. From many sources he had received appeals to mediate or to end the strike by government authority and he was thoroughly aroused to the gravity of the situation. But he proceeded with caution. At the start he found that he had to deal with his sworn enemy, J. P. Morgan, who was then at the height of his rage. Morgan stubbornly refused to exert his power to make the operators adopt a reasonable stand. He gave Baer a free hand.

In the meantime the issue between the miners and the operators had simmered down to one of union recognition. Regardless of increasing suffering, Baer refused to treat with representatives of the miners. He regarded the miners as "his" men, and professed to be willing to discuss the questions at issue but emphatically rejected all overtures from Mitchell and the union officials. Roosevelt injected a third element into the situation—the public, which brought forth a storm of criticism from the operators and their friends, as they refused to admit that the public had any legitimate interest in *their* property—the mines. It looked as if the public was in for a bad winter.

Roosevelt invited operators and union leaders to confer with him in Washington. After considerable parleying a meeting was arranged. The operators were in an ugly mood—obdurate, not to say offensive in manner. Roosevelt was exasperated. The only calm, sensible person at the meeting was John Mitchell, who made a moving appeal, but it fell on deaf ears, so far as the operators were concerned. The meeting broke up in

confusion. After it ended the operators were quoted as saying that they regarded the president's activity "as an intrusion upon a situation that in no wise concerned him".

Roosevelt kept his temper but registered a definite determination to bring the operators to terms. At first he turned to Ex-President Grover Cleveland and sought to have him act as mediator, but this plan ran up against the fundamental objection of the operators to consider any settlement that involved presentation of the miners' side of the case by their chosen representatives, the union officials. Next he decided on a bold move. Keeping his purpose secret even from the cabinet, he proposed to declare martial law and as commander of the nation's armed forces to put the entire coal fields under the jurisdiction of the army, with instructions to operate the mines until such time as a settlement could be reached. Rightly he figured that the operators would resent this action bitterly, as it put them out of the use of their property, which they assumed the right to use in their own fashion, without regard to the interests of the coal-using public. Practically the only one to whom the President confided his plan was Major-General Schofield, whom he had selected to do the job for the army. His provisional instructions to Schofield read that "if, in case the operators went to court and had a writ served on him, he would do as was done under Lincoln, simply send the writ to the President", and the old soldier was prepared to carry out his orders. Roosevelt, in turn, was resolved to risk impeachment. There was no leak, but somehow a suspicion of what Roosevelt had in mind occurred to the operators and immediately threw them into a panic. Grasping the situation with his usual intuition, Roosevelt quickly extemporized a proposal for both

miners and operators to submit their claims to a commission which he would appoint. There ensued a lengthy and senseless argument as to the make-up of the commission, during which Morgan forgot his enmity long enough to permit his junior partners, Robert Bacon and George W. Perkins—who were personally friendly with Roosevelt—to use their influence upon him. The operators quibbled over the inclusion of a labor man in the commission, but Roosevelt finally got around this by designating the head of the Order of Railway Conductors as a *sociologist,* and not as a laboring man, and everybody was happy. The Commission was appointed, the men went back to work, coal was mined and shipped and the public was saved the misery of a heatless, lightless winter.

When the Commission brought in its report it was more or less a compromise. It provided for a retroactive increase in wages, a reduction in the workday to nine hours, no change in the system of payment (which the miners had asked for) and a working agreement between the miners and operators without open recognition of the union. All parties accepted the award and the industry soon got back to normal, but Roosevelt acquired a new sense of the arrogance of organized capital and undoubtedly built up the mental complex which later led him on a wide front to bring the methods and practises of Big Business within reasonable control. Doubtless this reaction was intensified by the size of the majority which he received in the election of 1904, after which he went on record with the statement that he was no longer a "political accident". He was ruler in his own right.

Since the "Embalmed Beef" scandals, which had been an incident of the Spanish-American War, the meat-

packing industry had been under suspicion. This suspicion was brought to a head by a book that was written by Upton Sinclair and obtained a wide circulation in 1906, "The Jungle", which purported to portray conditions in the Chicago Stock Yards. The book swept the country like wildfire and resulted in a veritable avalanche of protest. Consummately handled by an artist and a propagandist of no mean ability, it told the story of a Lithuanian peasant who was caught in the maelstrom of immigration that carried some hundred thousand of his people over-seas during the Nineties and landed him in the Stock Yards. There he became a prey to the evils of industry and politics combined and, incidentally, was a witness to meat-packing methods which shocked the country when they got into print. In their greed for profits the packers were represented as making use of diseased and condemned meat, of scraps that were not fit for the table; they bought off government inspectors, adulterated their products in fiendish ways, violated any ordinance of City or State that interfered with their practises or profits, conducted their establishments in unspeakable filth and finally landed the hero in jail, from which point tragedy constantly dogged his heels. It was an ugly picture and one well calculated to arouse an already suspicious public. That it resulted in no actual benefit to the Socialist cause, which was its avowed object, was an ironic, if unimportant incident, since the book unquestionably served a larger purpose, overdrawn as it was.

Coming, as it happened, just at a time when a group of the leading packers had been indicted by the Federal Government as a monopoly in restraint of trade, in line with a general effort on the part of the administration to stamp out monopoly, the book focussed attention on

the meat-packing industry and a broad movement was started immediately to bring about reform in the food and allied drug industry. Prior to this time the subject had not loomed large in the public consciousness. There had been some desultory sniping at the manufacturers of certain food products, chiefly preserved and canned goods, who indulged in the use of chemical substitutes and preservatives on a large scale. By degrees these practises had reached a point where spoiled and unsaleable butter was made over by the addition of chemicals and sold for fresh; eggs in all stages of decomposition were deodorized with formaldehyde and supplied to the trade as "new-laid"; many fruit preserves were put up without a vestige of fruit having entered into their making; catsup was invariably made from the waste products of canning—pulp, skin and rind of over-ripe tomatoes, coal-tar derivatives and benzoate of soda or salicylic acid. There were many "patent preservatives" in chemical form which were "guaranteed" to keep meat, fish, poultry, etc., for any length of time. Often these claims were without foundation and resulted in sickness or death.

In the meantime both State and Federal Departments of Food or Agriculture had assembled valuable data, which was later to be the basis of effective legislation. Naturally, dishonest or avaricious manufacturers threw every conceivable obstacle in the way of such efforts. Their profits were large and growing larger with every new form of device which could be invented to deceive a gullible public. It was an Age of Chemistry, and they shrewdly encouraged the notion, while clean, properly prepared food products found themselves at the mercy of cheap adulterated goods.

In addition to this, the patent medicine business had

abounded in reckless and harmful mistatements and exaggerations from time immemorial and in the public mind it was linked up with the dishonest food manufacturers.

The storm began to break with a fusillade of exposure articles, which appeared in several of the leading magazine publications, at a cost incidentally of considerable advertising revenue to the publications in question. As a characteristic incident, one of these magazines* reproduced an advertisement of Lydia E. Pinkham's Vegetable Compound, in which it was stated that "Mrs. Pinkham, *in her laboratory at Lynn, Mass.,* is able to do more for the ailing women of America than the family physician. Any woman, therefore, is responsible for her own suffering who will not take the trouble *to write to Mrs. Pinkham at once.*" On the same page the magazine published the photograph of a tombstone in Pine Grove Cemetery at Lynn, Mass., showing an inscription that plainly indicated the death of Mrs. Pinkham some twenty-two years before. There were many similar frauds which duly came to light.

As a result of these exposures, as well as the constructive work of State bureaus, many of the States adopted legislation aimed at the worst practises both in the food and medicinal fields. These efforts finally won the support of an able and distinguished advocate in the person of Dr. Harvey W. Wiley, Chief Chemist of the Department of Agriculture in Washington, who became the leader in the crusade for pure foods and drugs. From the platform, in the public press and before Congress he waged a determined war to do away with the abuses in these fields and his efforts finally resulted in

* The Ladies Home Journal.

the formulation of a Food and Drug Act, whose passage Roosevelt recommended to Congress in his annual message delivered December 5, 1905. The bill was sponsored by Senator Hepburn, of Idaho, who had been active in earlier efforts to obtain action of this sort, which had been unsuccessful.

From the moment of its introduction the bill faced the opposition of the Republican leader, Senator Nelson W. Aldrich, who was also the leader of the forces of Big Business in the Senate. Repeated efforts were made to amend or emasculate the bill and it brought about one of the greatest legislative wrangles of our times, but in the end Roosevelt applied the full pressure of his power and personality and, with slight modifications, the bill was adopted. In the struggle in Congress over the Food and Drug Act was laid the groundwork of the cleavage in political philosophy which later differentiated the regular and progressive wings of the Republican party.

For the third time Roosevelt had come into conflict with the money powers and again he had bested them. The fourth and last battle was a reversion in a sense to the scene of his first struggle—the railroad field.

For a quarter of a century or more railroad rates and railroad regulation had been a bone of contention between the so-called conservative interests and an element inside and outside of Congress variously stigmatized as radical or demagogic or socialistic, according to the degree of antagonism represented. In 1887 the forces of Big Business had thrown a sop to this element in the form of the Cullom Act, but it was lacking in teeth. The bill set up the Interstate Commerce Commission, but gave it neither power nor authority. Roosevelt determined to remedy this deficiency. To begin with, his

purpose was merely to endow the Commission with powers of review, as he said in his annual message to Congress, on March 6, 1904, "While I am of the opinion that at present it would be undesirable, if it were not impracticable, finally to clothe the Interstate Commerce Commission with general authority to fix rates, I do believe that, as a fair security to shippers, the Commission should be vested with the power, where a given rate has been challenged and after a full hearing found to be unreasonable, to decide, subject to judicial review, what shall be a reasonable rate to take its place; the ruling of the Commission to take effect immediately, and to obtain unless and until it is reversed by the court of review."

But this was not enough to satisfy the radical element in the House and they promptly passed a bill that went much further. The bill was sponsored by William P. Hepburn, of Iowa, and it got no further than the House during the short session that ended March 4, 1905. In the next session the House repassed the bill and it went to the Senate, where the issue was immediately drawn between the friends of the railroads and their so-called enemies, mainly the Western senators.

Roosevelt was not unfair in his attitude toward the railroads. He recognized the fact that they represented an investment of some fourteen and a half billion dollars and this was largely in the hands of small investors or of banks and insurance companies whose reserves were invested in their bonds. He was not interested primarily in "swatting the railroads", as many members of Congress were, but was concerned chiefly in protecting the shipper, who was largely at their mercy. On the other hand, the bill as it came to the Senate practically gave the Interstate Commerce Commission unlimited power

to enforce rates, which, in effect, might readily be unjust and so an invasion of property rights. As Senator Knox put it: "When we recall that, as estimated, over ten thousand millions of dollars are invested in railroad property, the proposition that such a vast amount of property is beyond the protecting clauses of the Constitution, that the owners may be deprived of it by the arbitrary enactment of any legislature, State or nation, without any right of appeal to the courts is one which cannot for a moment be tolerated." And further: "From the decisions of the Supreme Court it will be seen that railroads have a constitutional right to just compensation for services rendered, and that by direct act of legislation or indirectly through a legislative body, as through the Interstate Commerce Commission, they cannot be deprived of this right. They are entitled to their day in court."

In the Senate a movement developed to provide for a judicial review of orders of the Commission fixing rates and an amendment to this effect was adopted. Of course, this was a negative advantage, so far as the railroads were concerned, as the bill definitely established the rate-making principle and the provision for a review has never been resorted to with any success by the railroads.

Starting as a moderate, leaning rather to the side of the railroads, in the course of the Senate discussion Roosevelt gradually swung around to the opposite position and in doing so again furnished Wall Street with proof of his enmity. Again he was stigmatized as a "socialist", but he took up the cudgels stoutly in his own defense. Denying the imputation, he went on record openly with the statement that "Public ownership of railroads is highly undesirable and would probably in

this country entail far-reaching disaster". Likewise he asserted that "the corporation has come to stay, just as the trade union has come to stay. We must all go up or down together". He had, he added, "no hostility to the railroads. On the whole the railroads have done well and not ill. The question of transportation lies at the root of all industrial success".

Notwithstanding these kindly sentiments, Roosevelt approved the Hepburn Act exactly as it came from conference and Wall Street gave him credit only for "mealy mouthings". It was set down as just another victory for the forces of discontent, to whose leadership Roosevelt had definitely succeeded in the estimation of Big Business. But, in the interest of justice, it is only fair to record that the real enemy of organized wealth during this hectic period was not Roosevelt; it was Wall Street itself, which encouraged practises and abuses in the promotion and management of great properties that could not fail to arouse sentiment against them. One by one, these malefactions came to light and in the end all corporate bodies were tarred with the same stick.

To cap the climax, the country was suddenly brought face to face with the fact that its most beneficent and sacred institution—Life Insurance—was just as rotten at the core as other manifestations of Big Business.

But this is a story in itself.

V

THE WIDOW'S MITE

LIKE the savings bank, the institution of Life Insurance had acquired a sacrosanct character in this country. The refuge of the widow and the orphan, it was removed in the public mind from the malevolent environment of ordinary business. Not so among the Wall Street fraternity. Enviously the bankers looked at the immense resources of the life insurance companies and the constant stream of gold that poured into their treasuries. Already, before the turn of the century, Morgan practically controlled the New York Life Insurance Company; within a few years he was to acquire a voice in the management of Mutual Life, and—partly as a result of the series of events that we are about to relate—he was also to add the Equitable to his interests.

As an indication of the financial scope and importance of these institutions, it may be cited that these three companies alone controlled resources in excess of $1,300,000,000 and their combined cash income exceeded $268,000,000 per annum. In addition to this they provided a livelihood for a vast army of employees and maintained a corps of agents that tapped the hidden wealth of the smallest hamlet in the country.

The Equitable Life Assurance Society—one of these three—had been founded in 1859 by Henry B. Hyde,

who had obtained a thorough schooling in the business during a seven-year connection with the Mutual Life Insurance Company. Losing his job on account of a display of too much aggressiveness in going after business, he organized the Equitable through the simple expedient of renting a vacant office in the Mutual Building and hanging up a sign. From this beginning, with borrowed furniture and office equipment and a few dollars invested by friends, including some wealthy and influential members of the Fifth Avenue Presbyterian Church, which he attended, he set up in opposition to his former employers and when he died forty years later he left a company that was one of the three largest in the world and a twenty-three-year-old son who, at his death, became the autocrat of half a billion dollars of assets and the custodian of the interests of 600,000 policy holders.

Among the circle of church acquaintances whom Hyde had interested in his venture at the start was the Alexander family, several of whom became represented in the management and, in fact, lent considerable dignity to the undertaking. The head of the family, or dynasty, was James W. Alexander, who had been intimately associated with Hyde from the early days of the Equitable and at his death was named a trustee of his then great estate.

Ill-equipped to succeed his father in the direction of an institution of such magnitude as the Equitable Life, and having his head turned by his new honors, which included directorates in half the important financial institutions in New York and in many of the leading corporations throughout the country, the son, James Hazen Hyde, soon managed to achieve a reputation for the lavishness of his entertainments and the uselessness

of his exploits but did little that redounded to the greater glory of the Equitable. The newspapers were full of his doings, including a dinner which he gave to five hundred of the fashionable set at a cost of $125 per plate,—paid for, as it later developed, out of Equitable funds—his erection of a chateau on Long Island and importation of French chefs and maitres des chevaux. Even his occasional journeys to the Equitable office were a parade, according to the newspaper reports of the day, "as he drove jauntily down town in his private hansom cab, a bunch of violets nodding at the side of the horse's head, another bunch nodding from the coachman's hat and a third bunch breathing incense from the buttonhole of the young man himself".

Guarded by a host of secretaries and ensconced in one or another of four magnificent private offices, this exquisite presided over the affairs of the Equitable, at such times at least as other more important social matters did not claim his attention. For a time, fortunately, he was able to rely upon the guiding hand of Trustee Alexander, but Alexander had little sympathy with his ways and soon became a critic, rather than an aid. Left to himself, young Hyde showed little more good sense in his business judgment than he did in his silly pleasures. Eager to be accepted in the street and among his society friends as a thorough-going good fellow, he was prey to every sharper who was able to approach him with a proper introduction, and it was charged that he lavishly handed out the funds of the Equitable, or affiliated financial institutions where its funds were deposited, on schemes of doubtful merit. Under the flattering tutelage of bankers and industrial leaders who were seeking access to the Equitable resources, it was not long before he learned many of the simpler tricks of finance, as it

was understood in the Street—how the vast funds held by a big insurance company or its affiliated banks and trust companies could be used legally and without impropriety but with advantage to individuals in the management; how they paved the way into underwriting syndicates or similar financial ventures which offered fat profits to the insiders. As a result bankrupt railroads, worn-out utilities, and broken-down industries fought for a place at the Equitable trough and not all went off empty handed.

Alexander was not entirely without responsibility, or at least without knowledge, of many of young Hyde's acts, but he carefully avoided association with him in his undertakings. In fact, he had his own axes to grind. Closely allied with an important Wall Street banking group, he was a party to many of their projects and through him the funds of the Equitable were always at their disposal. Seeking to strengthen their position, these interests fostered a whispering campaign which appeared to be directed against young Hyde, and soon rumors gained headway throughout the Street that all was not well in the Equitable, as indeed it was not. These rumors reached the ear of Joseph Pulitzer, owner of "The New York World", who quickly scented a "story". Starting a quiet investigation, he soon gained possession of facts enough to warrant newspaper notice and spread them before the public in the pages of the "World".

In the meantime an effort to deprive Hyde of control of the Equitable had begun to take form within the company. Alexander finally joined the ranks of his open enemies and, headed by him, the chief officials of the Equitable united in a petition asking for his resignation and demanding a mutualization of the Society. Hyde was thoroughly taken aback, but not so easily disposed

of. He decided to fight and the contest quickly became one between the two opposing sets of interests that sought favors from the Equitable—the faction represented by Hyde and the faction represented by Alexander. With Harriman on one side and the Morgan-Hill crowd on the other, the battle resolved itself into a renewal of the struggle over Northern Pacific which had occurred four years earlier. Hyde himself was now only a pawn in the game.

Efforts were made to quiet the noise of the struggle, but Pulitzer was not to be denied. Sensing a desire to avoid disclosure, he unlimbered his big guns and presented the facts, in so far as he got hold of them, without fear or favor.

"There must be publicity", he demanded editorially, as the true situation began to come to light. "Purging, punishment and full restitution. Open the books! Let the policy holders know what has been done in secret with the money saved for the protection of widows and orphans. Let there be light! There should be full publicity through legislative investigation. Investigate, gentlemen of the Legislature!"

Under this assault on two fronts Hyde gave up the unequal fight and retired to the remoteness and more agreeable environment of Paris, where he has since been able to enjoy his French chateau, dogs, horses, stablemen and chefs without the pitiless publicity that beats upon the head of the Equitable. In accepting this defeat incidentally, to the great disgust of Harriman, he sold out his majority interest in the Equitable to Thomas Fortune Ryan, who paid the sum of $2,500,000 for the doubtful privilege of collecting annually a dividend stipend of only $3,514, to which the shares were limited by the company's charter. Evidently there was

something else that Mr. Ryan expected to get as part of the bargain, but the notoriety that arose over the whole Equitable situation cheated him out of the larger gain and he was later forced to take back his money and trustee his holdings for the benefit of the policy holders. J. P. Morgan provided the cash and became one of the trustees, thereby securing a voice in the control of the great institution. The Equitable now is a mutual company.

Following the lead of the "World", other newspapers took up the Pulitzer cry and a widespread demand for an investigation appeared. In due course the Legislature at Albany ordered an investigation not only of the Equitable but of all the life insurance companies. And so Charles Evans Hughes got his place in the sun, for he was selected to conduct the inquiry.

At that time Hughes was comparatively unknown. Successively school teacher, practising attorney, invalid and college professor, he had achieved little in the way of a reputation, but in the general region of his luxuriant set of whiskers he carried a nose for figures and, as it later developed, a tenacious, inquiring mind. Quickly mastering the intricacies of life insurance and its relation to finance, he brought to light an array of facts that amply demonstrated the need for the investigation. Before his batteries the legal lights of Wall Street found their case hopeless, with the result that the actual conditions were spread upon the printed page where all the world might see them. Aside from blasting innumerable reputations that had stood as synonyms for integrity, here are some damaging facts that Hughes brought out:—

That the youthful and inexperienced Hyde drew

yearly stipends from the Equitable and its affiliated companies amounting to $127,000.

That nepotism was rampant in all the companies and any son or nephew of an important factor in the management who was not on the payroll for $100,000 or better was "asleep at the switch".

That enormous commissions were paid to favorites and relatives of officials who masqueraded as "General Agents".

That the Equitable maintained on deposit at affiliated or friendly trust companies upwards of $36,000,000, or more than nine per cent of its total assets, on which it was paid interest at the rate of only two or three per cent, and to conceal this fact it made a practise of loaning out the bulk of these funds over each year end when the usual audit was taken.

That the New York Life subscribed to $4,000,000 of bonds in Morgan's ill-fated International Merchant Marine, a considerable part of which was hidden by false entries on the books.

That another banking house—Kuhn, Loeb and Company—unloaded on the Equitable, in which one of the partners was a director, over $50,000,000 of securities within a period of about five years. (This firm were the bankers for Harriman, who worked his way into the good graces of young Hyde and ultimately won a place on the Equitable board.)

That, in order to get around statutory provisions in certain States and foreign countries against investing in stocks, the New York Life made fictitious loans running up into the millions, through its affiliated trust company, to dummies (including a bond clerk and negro messenger boy) who, in turn, invested the money in

stocks, in defiance of regulations, for the benefit of the insurance company.

In addition to this, Hughes dug up the fact that practically all companies were aligned with one political party or the other and diverted enormous sums secretly each year to taking care of their political fences. At Albany the Mutual Life maintained a residence which was used for this purpose—later to be known as the "House of Mirth". Under cover of "legal expenses" this company paid out upwards of $350,000 in a single year and in its report the investigating committee went on record openly with the statement that this was "far in excess of the amounts required for legitimate purposes". Through one of its legal agents the New York Life Insurance Company disbursed the sum of $1,312,-197.63 as legal fees, in addition to ordinary outlays for insurance purposes and practically not a cent was ever accounted for. Under the heading of "Supplies" the Mutual, New York Life and Equitable reported combined expenditures of almost $3,000,000—a mere "blind", as it later developed, to conceal political expenditures.

In the course of the investigation it developed that the four big companies made large contributions to the Republican National Committee at each national election and that the Mutual Life contributed regularly to the State Committee. It also appeared that Chauncey M. Depew received a retainer of $20,000 per annum from the New York Life while he was Senator from New York. Notwithstanding his sense of humor, the worthy senator found it difficult to explain this little item, but he derived some consolation from the fact that Democratic Senator David B. Hill had been on the Equitable payroll.

Needless to say, the Hughes revelations brought about consternation which was not confined to financial circles. What is more surprising, they resulted in legislation that eliminated many of the evils that came to light and for the first time put the life insurance business on a sound and wholesome basis. Incidentally, although there were wholesale indictments of insurance company officials as a result of these revelations, no one was sent to prison, so far as can be ascertained; but practically all the presidents of the leading companies lost their jobs and there was a new deal all around.

Unable to bear up under the loss of his reputation, it is said that the man who started it all, James W. Alexander, died of a broken heart. And Charles E. Hughes became the candidate of the Republican party for president in 1916.

VI

PANIC AND PLENTY

FOR TEN long years prior to 1907 the country had experienced increasing prosperity. Notwithstanding the crimes of Wall Street, the depredations of the Trusts, the greed and dishonesty of manufacturers, the suppression of labor by injunction and otherwise, and despite the unsettling influence of Roosevelt, business had moved steadily forward. It was a period of good times. The evidence of this lay about on every hand. Wealth had accumulated. Palatial homes abounded. With heavy-handed prodigality the rich took over, one by one, the art treasures of the Old World. The continent was ransacked for paintings and sculptures, tapestries, mosaics, relics of gold, silver and bronze, altar-pieces, doorways and stairways of ancient and honored associations. Old-world castles were moved bodily across the ocean and re-erected in Long Island or on Michigan Boulevard. Magnificent public buildings came into being—capitols, court houses, post-offices, museums, libraries and colleges. At Yale, Harvard and Princeton was supplied a brand of social and intellectual veneer that enabled the coal-miner's or beef-packer's son to cover up the muck that surrounded his lowly origin. For the benefit of their daughters, railroad, steel and oil magnates bought European titles as casually as they bought wheat or hogs.

It was the Gilded Age. America had been made over. No longer the heritage of the "free and the brave", it became the playground of the rich and they spent their fortunes with lavish hand. "Only three generations from shirt-sleeves to shirt-sleeves" became a by-word.

In the midst of these external manifestations of prosperity there were less discernible economic factors of vast significance. The banks were bursting with funds and money was easy. Coupled with this was a newly discovered interest in the stock and grain markets. Of course, there had always been speculators, but now the public began to take an interest. During the era of trust promotion vast amounts of common stock had been issued and the bankers found a rising market a convenient aid in passing out their holdings to the public. Originally these stocks had little or no actual value but a beneficent tariff on the one hand and improvements in production methods on the other gradually built up their earning capacity. By 1906 U. S. Steel common was paying two per cent; the preferred was paying its regular seven per cent. All stocks were moving up. Reports of "killings" in the Street began to get around and the less conservative opened margin accounts. To take a "flyer in the market" began to be a sign of financial acumen. It marked the corner druggist in Kankakee, Illinois, as kin to the Big Boys in Wall Street. Pennsylvania, New York Central, Pullman, Western Union, Westinghouse, General Electric and U. S. Steel were market leaders. Through their "Street" control the banks were led to help the good work along. Pools found it easy to get money. Everyone went into debt, the business man for the purpose of financing his growing business, the speculator in order to add to his line. "Stock pyramiding" was born.

During the early part of the year 1907 danger signals began to appear, but they were ignored by over-confident speculators, as they always are. In March there was a near-panic in the stock market; in August another, which threatened to assume the proportions of a real crash. In October the Westinghouse Manufacturing Company went into receivership, followed by the New York City Railways, and hard on their heels Charles W. Morse's consolidation of Atlantic Coast shipping companies went by the board. Morse was one of the younger brood of high financiers who flashed across the Wall Street horizon without the usual process of incubation that leads to financial prominence. Among his other achievements he had originated the system of "chain banking" and had built up a string of banks throughout New York City by employing the resources of each, as acquired, to purchase control of additional units. By restricting his operations largely to trust companies, which were state institutions and not subject to Federal supervision, he managed to conduct his banks in any manner that suited his needs or convenience and gradually involved them in various schemes of doubtful merit. Among this string of banks was the Knickerbocker Trust Company, a sizable institution, which was headed by one of Morse's cronies, Charles T. Barney—later to put a pistol bullet through his brain.

As the month of October wore along money tightened up, currency began to disappear, the decline in stocks was accelerated and there were many premonitions of disaster, but the speculative element persisted in maintaining its "long" position in the market. As a part of these operations, an active pool was engaged in trying to corner the market in United Copper, but one of the insiders sold out secretly and overnight the corner was

broken, heavily involving a firm of brokers who were closely identified with Morse. Instantly reports spread in the Street that the Morse banks had been "hit hard", as indeed they had been, since it later transpired that they were "holding the bag" for the ill-fated pool. One of the banks in question, the Mercantile National, applied to the Clearing House Association for help and a hurried investigation disclosed the real situation and pointed to the Knickerbocker as being even more seriously involved. The Knickerbocker had some 17,000 depositors, with deposits of about $35,000,000, and it was not believed that the Clearing House would allow the bank to fail. As a matter of fact, frantic efforts were made by a group of leading bankers to whip the bank's affairs into shape, but just as they were on the point of succeeding, one of the big down-town banks became panic-stricken and refused to continue clearing its checks. Word of this leaked out over night and in the morning when the bank's doors opened a long queue of depositors were waiting to withdraw their funds. Within two hours the vaults were empty and the bank suspended business. This started a run on other banks and the following morning the Bank of America went under. Terror now swept over Wall Street and spread throughout the country, amid tumbling stock and grain prices, and another major panic was on. Again the Cyclical Theory had been vindicated and the country faced the ordeal of panic, liquidation and readjustment which invariably precedes recovery.

At this point, with unanimity, the financial world turned to its admitted overlord, J. P. Morgan, and commissioned him to bring order out of the chaos. Turning seventy and approaching the end of his career, the gruff old warhorse was forced to take off his coat and

again get down to the thankless business of saving the country. Needless to say, he made a good job of it. Fortunately Morgan was on better terms with George B. Cortelyou, then Secretary of the Treasury, than he was with the President, and with Roosevelt's approval, Cortelyou placed the resources of the government largely at Morgan's command. At his word its cash holdings were shifted from bank to bank and used where they would do the most good. Weak banks were strengthened. Sound banks were forced to help the weaker ones. When one of them objected that its reserves were in danger of being impaired, Morgan roared back: "What? Do you realize what you are saying? Tomorrow you may have no reserves at all!"

Stillman, head of the National City Bank, threw into the pot the Standard Oil millions; Baker, of the First National, always a pillar of strength; Harriman, Morgan's ancient foe; Frick, the cool-headed, far-seeing head of U. S. Steel; Thomas F. Ryan, a power in many fields, all united behind the Grand Old Man of Wall Street and between them they stemmed the tide. To prevent an entire collapse of the market when the banks discontinued loans to brokers, Morgan, on a few moments' notice, arranged a credit of $25,000,000 to be loaned out under his supervision. At the end of a week nine banks had closed their doors in New York City alone, Clearing House certificates had taken the place of currency and Wall Street was strewn with the wreckage of brokerage houses and speculators—*but the panic was ended*. Within a month banking in New York, and indeed throughout the country, was back on a normal basis, leaving only the dirty work of mopping up the back-wash of depression. Within another year business was "going on as usual". True, fortunes had been lost

in the market and speculators wiped out in droves, with a corresponding reaction on real estate and commodity values. It was the Thirties on a smaller, much smaller, scale, for the dislocation of industry did not go far enough actually to halt the march of progress that was under way and recovery was quick.

For the second time J. P. Morgan had come to the national rescue and on this occasion he got much of the credit that was his due. By a coincidence, his sworn antagonist, Roosevelt, played little or no part in this stupendous effort. He allowed Cortelyou a free hand and at one point, against his natural inclinations, gave his tacit consent to the acquisition of the Tennessee Coal and Iron Co. by the Steel Corporation—a measure that became necessary to prevent the failure of one of the leading banking houses in the Street—but aside from this he took no steps that affected the situation. In truth, he was facing forces that were greater than he was—economic tides that rolled up and engulfed the puny structures that man had built and forces of human fear and panic which swept all before them.

After the storm had passed, and in fact during its course, Roosevelt was blamed in many quarters for the disastrous events that occurred. To his "trust-busting" activities and general meddlesomeness with matters that were better left in the hands of Big Business, Wall Street ascribed the wreck. It is possible that this was correct, in part at least, but there were other factors that entered more decidedly into the situation. On the Cyclical Theory (whether or not there is anything to it) the country was due for a set-back and, on any theory whatsoever, a reckoning had to come. Speculation and over-expansion are seeds that inevitably bear the fruit of panics and, Roosevelt or no Roosevelt, the country

had it coming in 1907. That the results were not more disastrous than they proved to be was due solely to the fact that the nation's resources were still unexhausted and its purchasing power intact to a large extent.

Despite these facts the Panic of 1907 was not a mere surface disorder. It reached down deep and brought about fundamental changes in the financial organism. It is not too much to say that it marked the end of an era. From this point on a new sense of responsibility was evident, at least among the more substantial banking interests. Among the Morgans, Kuhn-Loebs and other similar pillars of the industrial order there was less disposition to become involved in disagreements that led to financial dislocation. A community of interest came into being, with results that were highly beneficial, at least until the world lost its senses again during the halcyon days that followed the Great War and ended in the Depression of the Thirties.

Burdened by his responsibilities and visibly growing old, Mr. Morgan took a diminishing part in the affairs of the Street, but once more before the end of his life he was to figure in the public notice. It was a full four years later. Business had staged a remarkable comeback. Happy times were here again, but the stalwarts who had saved the country back in 1907 were no longer in favor. Big Business was again under suspicion. More particularly the money powers, at whose head stood J. P. Morgan, were the objects of attack in the press and in Congress, where the House appointed a committee to investigate the Concentration of Control of Money and Credit. Known as the Pujo Committee, this body conducted a series of hearings that set the country by the ears. Mr. Morgan himself was the chief witness and, under the sharp cross-examination of

Samuel Untermyer, had an opportunity to present the bankers' side of a controversy which had agitated the country for the better part of a generation.

As a preliminary to his examination, Untermyer brought out the fact that a definite community of interest existed between the Morgan firm and a group of financial institutions which had practically a controlling voice in the management of 112 great corporations, having aggregate resources of $22,245,000,000. Morgan objected strenuously to being placed "on exhibition", as he called it, but on the whole made a very creditable impression. Among other things, he revealed his personal code of credit. If he did not trust a man, he stated bluntly, he could not get money from him "on all the bonds in christendom". On the other hand, he added that he had known a man to come into his office and had given him a check for $1,000,000, when he knew he did not have a cent in the world. Questioned further, he denied that commercial credits are based upon the possession of money or property. "No, sir", he contended stoutly, "the first thing is character". It was in the course of this inquiry that Mr. Morgan let fall his widely quoted reference to "undigested securities", a term that came to have a real meaning some twenty years later, when the whole country became a victim of this condition.

Less than two years after Mr. Morgan's appearance in the Pujo investigation his body was brought back from Italy on a United States cruiser and the great financier passed from the scene of his earthly achievements for all time.

In the meanwhile the country had not stood still. At Washington Taft had succeeded Roosevelt and, in turn, after their much advertised falling out, had been suc-

ceeded by Woodrow Wilson. Under the spur of an able Secretary of the Treasury, Wm. G. McAdoo, and with the aid of Senator Carter Glass, later to become Secretary, the banking system had been reorganized through the passage of the Federal Reserve Act.

It is possible that this was the most constructive achievement of the Wilson administration but in itself it was not sufficient to prevent a breakdown of the financial and banking structure within two decades. That the banking system did not collapse immediately under the strain of the market crash of 1929 is due, however, to its revision at the hands of McAdoo and Glass. Briefly, the Federal Reserve Act linked up the national banks of the country, along with those State banks which chose to join, in a close-knit system, every unit of which was operated under strict government supervision and all of which had access to credit reserves in times of emergency that were likely to make it possible to ride out any financial storm. After this, a panic of the sort that occurred in 1907 could not wreck the banking structure. In fact, nothing short of a long-continued seepage of gold or general withdrawal of deposits could bring this about. As a result of world conditions which were beyond control, this occurred at the end of 1932 and early during the following year banking facilities were suspended by presidential proclamation until the situation could be taken in hand, but when the suspension was finally lifted the system functioned again and will undoubtedly continue to do so, subject to such modifications as recent experience may have made necessary.

During the years of political disturbance that ended with the German march into Belgium, industry made continued headway in America. Breaking over national

boundaries, manufacturers began to reach out for foreign markets. With few exceptions every year witnessed a more favorable balance of trade. In the face of considerable tariff tinkering, which met with little approval in Wall Street, exports increased from $1,743,864,000 in 1907 to $2,465,884,000 in 1913. Toward the end of this period, under the shadow of the approaching storm, it is true that business let down to some extent. In 1913 there was a marked decrease in both foreign and domestic trade, but it is probable that this was due rather to financial readjustments brought about in anticipation of war than to the normal effect of the Wilson policies. Notwithstanding this, there was ample evidence of industrial progress. Here are just a few facts and figures which may be recorded as indications of the business trend:

During this seven-year period commodity prices advanced 15 per cent; bank clearings increased $10,000,000,000; industrial stock averages were up 35 points, or 67%, the rails 31%; savings bank deposits rose from $3,299,544,000 to $4,451,555,000, a clear gain of more than a billion, and the national income increased well over five billion dollars.

But the outstanding phenomenon of these pre-war years was the emergence of the automobile, both as a social factor and as an economic fact. Forerunner of many mechanical conveniences which were to alter and color the outward aspects of American life, the automobile was to set the industrial pace for the greater part of a generation and the end of its rule is not yet in sight.

Who invented the automobile is a question for which no conclusive answer has been found. Certainly it was not an American, although American mechanical genius has contributed most to its improvement and to cheap-

ening its production. As early as 1879 Charles B. Selden, an American, applied for a patent on a vehicle driven by an internal combustion engine, but this type of power plant was itself the invention of a German, N. A. Otto, who three years earlier originated the four-cycle combustion engine, which was later to be adopted by gasoline-driven machines. Likewise, the modern system of hot-tube ignition was the product of a German, Gottlieb Daimler, who also built the first motor cycle. From the beginning of the industry, it is to be admitted that Europe has done much to influence automobile design, as it has in all style fields, but the manufacture and distribution of this new form of transportation reached its apex in this country. In 1915 Henry Ford caused much amusement when he hazarded a guess that twenty million automobiles would be in use in the United States within twenty years. Less than fifteen years later, in 1929, total registrations exceeded 23,000,000.

It was in 1892 that the first automobile appeared on the streets of America, being driven down Michigan Boulevard in Chicago, to the amazement of onlookers, —but this was an electric vehicle. Six years later Alexander Winton delivered what was said to be the first American-made gasoline-driven automobile to be built and sold in the United States, and so started this record-breaking industry. After him, in quick succession, came Duryea, Franklin, Ford, Pierce, Haynes and Apperson, but up to 1905 Great Britain led the way in automobile production. In the meantime, however, American manufacturers had been gradually developing machine methods of production and when Henry Ford, Maxwell, Olds and a few other apostles of mass production got under way, the tide turned. By 1929 there were 26 times as

many motor cars built and sold in the United States as in the entire British Empire.

Despite the prosperity which the automobile has experienced as a whole, its early record was not promising. In 1925 only fifteen manufacturing concerns which started in the early days were still in existence and more than a thousand had failed, many of them succumbing to the depression of the early Twenties, which caught automobile and truck manufacturer with heavy inventories and capital investments carried over from the war period. It was at this time that such well-known makes as Lincoln, product of the Leland Brothers (founders of Cadillac), Wilco, joint creation of Walter B. Chrysler and John N. Willys, Locomobile, Liberty, Wills-St. Clair and Chalmers got into difficulties. Prior to this, the first important combination in the automobile field had succumbed, the U. S. Motors Corporation, but out of the wreck the Bradys saved Maxwell, which they reorganized and later consolidated with Chalmers, its stock becoming a football of Wall Street until they effected a deal with Chrysler which resulted in the transfer of their interests and banking support to the Chrysler Corporation and the final disappearance of both Maxwell and Chalmers as separate units. In the meantime Chrysler also acquired Dodge, making the Chrysler Corporation the third largest organization in the industry.

Another casualty of the Twenties was William C. Durant, who originally put together General Motors and then became involved in stock market operations which resulted in the loss of his control to the combined Dupont and Morgan interests during the depressed market of 1920. Shrewd and not particularly scrupulous in his methods, Durant had built up the General Motors

combination on a "shoestring", out of a conglomeration of concerns which were mostly verging on bankruptcy at the time. Just before the war period he came within an ace of losing control of his great property when he found it necessary to turn his holdings over to bankers in order to obtain a loan of $9,000,000. Being unable to meet this obligation at maturity, the bankers took over the management under the leadership of Lee, Higginson and Company, and placed Charles W. Nash in charge. Nash did such a good job that he built up the value of the stock to a point where Durant was able to readjust his banking arrangements and to put himself back in control. Promptly getting rid of Nash (who immediately formed the Nash Company, now a leading unit in the industry) Durant succeeded in maintaining his control long enough to see General Motors the largest and most profitable organization in the field, with the possible exception of Henry Ford. But in due course Wall Street "got" him, as it has tried, without success, to trap Ford since he became a factor in the industry. The marvel of rival manufacturers and the despair of bankers, Henry Ford has built up an unassailable position in the industry, with assets that exceeded $675,000,000 at the end of 1931, even after absorbing losses growing out of the depression which were staggering in amount.

Following his defeat at the hands of the Duponts, Durant attempted to build up a rival organization, Durant Motors, Inc., and in so doing organized a gigantic promotional operation that absorbed some $50,000,000 of public money but in the long run got nowhere and recently was abandoned as a hopeless venture. But Durant was never able to curb his interest in the stock market and established a reputation as one of the great-

est operators in the bull market that ended in 1929. At one time his profits were rated on paper at $60,000,000 or more.

From a social standpoint the automobile made over modern life. It tore away the bonds that held the average man in chains to the spot where he was born or had his being. Just as in a previous era the locomotive had broadened the scope of life, the automobile opened up new vistas and it reached further down into the strata of human life. It set a people free and put the common man in a way to find new beauties and larger opportunities beyond the range of his immediate vision. As the cost of automobiles came down and time payment plans were extended, this broadening influence came within the reach of all classes. It became an ordinary thing to see the wage earner going to and from his work in a Ford or Chevrolet and on Sundays or holidays his family went with him into the countryside, where they learned, for the first time perhaps, that there was such a thing as Nature. Curiously, the machine age assumed an idyllic aspect, which added much to the wholesomeness of life.

Business, too, was quickened and stimulated by this new economic factor. Salesmen were no longer dependent on time tables and their scope of activity was correspondingly increased. At one time it was stated that 4,000,000 individuals found employment, directly or indirectly, through the production and sale of automobiles, adding vastly to buying power and laying the basis of a broad prosperity.

Roughly speaking, it is estimated that fifty times as many people as drove a horse and buggy in the old days came to own motor cars. The automobile was to become as ubiquitous as the telephone. This is a restless age.

It demands speed and in so doing has created an industry that has poured billions of dollars into the till of prosperity. In fact, the automobile has set a new standard of living. "Keeping up with the Joneses" has come to be determined mainly by what make of car one drives.

VII

AMERICA GOES TO WAR

INTO this scene of peace and plenty the news of the assassination of the Austrian archduke fell like a portent of disaster. Crashing in upon our dull, work-a-day world, in which only the expected seemed to occur, it upset our notions of the permanence of things and filled us with a disquieting sense of uncertainty. Not that there was any real alarm. We were too sure of our world for that. But it puzzled us.

As the statesmen fenced and fought for delay, while they lit the fires of propaganda which were later to burst forth in a conflagration that all but consumed the world, we went about our tasks in the accustomed way, vaguely uneasy but convinced at heart that nothing could arise to alter the scheme of life which had been built up around us. Let the "Heinies" and "Frogs" fight it out, if they must—our jobs were secure, our homes were safe, our boys were not to be cannon fodder; the old "Lizzie" would keep on running, John Bunny would continue to entertain us with his antics on the screen; Buster Brown would still caper through the funny papers and, best of all, business would be good. Not a bad old world, this pre-war, pre-Hoover one that we had built up. There was at least a drum-stick in every pot, though the rest of the bird might be lacking.

Then the statesmen decided that it was time to start the bonfire. A few more bundles of brush wood. A torch coming out of nowhere. And the Germans were marching through Belgium, to the staccato of machine guns and the ceaseless rumble of artillery fire. Even then we were not alarmed. To the contrary, it looked like a chance to pick up some easy money. We had cotton and copper and steel, the things that shells are made of; we had motor cars and motor trucks and flying machines that would really fly, and the inventive genius to adapt them to the grim uses of war; we had the wool that goes into uniforms and blankets and hose, the leather that goes into shoes and harness, and the mills to turn them out in million lots. We had flour and pork and beef, canned and uncanned; tobacco and candy—all the essentials that were necessary to make a "tommy" or a "poilu" feel good before he was blown into atoms. And as the armies really swung into action, their need of these things and a thousand other things became urgent and they expressed their willingness to pay fat prices. They paid. Business was good. Wages went up. The laboring man took to wearing silk shirts. This helped the silk manufacturer and, rather to his surprise, his profits took a jump too. True, women's skirts shortened up a few inches and this hit the textile manufacturer, but he was too busy with war orders to worry about that. Soon all corporate profits began to swell and stocks moved up a peg. A peg, did we say? a couple of pegs. Then five, ten, twenty pegs. It was boom times again! This was not such a bad war, after all. Look at Emmy in her new middy dress, and Emmaline in her new set of furs, and the new Ford out there in front of the house. And here's little Willy playing with his brand new toy cannon that just came over from Schwartz's.

So felt that mythical person, Mr. Average American, as the poppies faded in Flanders field and millions gave up their lives to prove that statesmen were right, while in the forums of the world Woodrow Wilson's notes resounded to no practical purpose.

In the security markets it looked as if there was trouble ahead when the headlines blared forth that single fateful word "WAR" on August 1, 1914. Promptly the Stock Exchange closed and remained closed for four months and 12 days. With foreign holdings of American securities in process of wholesale liquidation, it was to be expected that stock prices should take a tumble. And tumble they did, as an avalanche of selling struck the market. During the week before the closing of the Stock Exchange, General Motors dropped 39 points, International Harvester 26 points, U. S. Steel 12 points, Bethlehem Steel 12 points and U. S. Rubber 16 points.

But as the war orders came in, spirits began to revive in Wall Street, as they did in manufacturing circles. Millions of rifles for Remington Arms. Millions of pounds of powder for Dupont. Millions of shells for Bethlehem Steel. Profits, these orders meant—big profits. In every field business took a tremendous spurt forward. The output of pig iron jumped from 1,500,000 tons in December, 1914 to 2,000,000 tons in the following December. Steel production increased from 23,513,000 tons in 1914 to 42,773,000 tons in 1916.

The U. S. Steel Corporation enlarged its plant capacity more than 40%. During 1915 the production of copper ran some 32,000,000 pounds ahead of any previous year. The yield from the wheat crop increased from $56,710,000 in 1913 to $296,252,000 in 1916. From dire depression the cotton growers were lifted over-night into a condition of affluence. Monthly bank clearings

jumped from $9,900,000,000 in August, 1914 to twenty billions in the last month of the year and twenty-seven billions in December, 1916. Our holdings of gold increased over a thousand million dollars. It was evident that the war had let loose a "boom" which exceeded anything in previous experience. Both wages and prices went up, but the balance was on the side of the wage earner and the national income took a leap forward as a result. Income taxes for 1915 showed an increase amounting to thirty million dollars and in 1916 another increase of forty-four million dollars. During the spring of 1917, we ourselves entered the war and for a while war profits continued to grow. All told, it is estimated that American manufacturers realized out of the war profits in excess of $9,000,000,000. Of this approximately two billion dollars went back to the government in the form of income or excess profit taxes, leaving a net residue of $7,000,000,000 to compensate capital and industry for their joint sacrifices. No wonder that short-sighted industrialists prayed for war again during the dark days that followed the panic of 1929.

Much has been made of the American state of unpreparedness for the war and not all these strictures are unwarranted. Despite the fact that the greatest struggle of all time was going on, a struggle in which whole populations were involved, and, one by one, the nations of the world had been drawn into the vortex until a total of twenty-eight were represented on one side or the other, little had been done to fit us to do our share when President Wilson issued his ringing call to arms. In fact, the President had won his re-election on the plea that "He kept us out of war." The army was in the hands of officers of the old school, whose conception of warfare had been limited to the trivial operations on

the Mexican Border. There was no Great Staff, such as Germany had, which was prepared to initiate vast military movements on the one hand and, on the other to co-ordinate the industrial forces that were needed to give them effectiveness. So burdened was our staff with petty duties that no one could find time even to study the reports of our own military observers who had been sent to various fronts for the purpose of reporting operations. Unread, they lay in the files of the War Department. There was practically no intelligence service, notwithstanding the fact that the country was known to be overrun with foreign spies. The purchasing of supplies was wholly unorganized, or, worse still, organized along lines of the utmost inefficiency, being in the hands of bureaucrats who often bought for divisions of which they had no practical knowledge, with constant overlapping of functions. The conception of war as a conflict of populations and resources pitted against each other existed nowhere and, as a result, it was not until four months before the end that the war machine really began to function. Even then it was constantly thrown out of gear by want of balance between the fighting units and the industrial forces behind the lines.

Fortunately, the Navy was more alive to the possibilities of war than were other departments of the Government. Being the first line of defense, attention had been focussed on its condition ever since the start of the Great War. In fact, an active building program had been initiated in 1916 and this was well underway when the country finally entered the conflict. Out of discussion arising over Navy needs, moreover, had emerged the Naval Consulting Board and its Industrial Preparedness Committee, which contained the germ of the War Industries Board, which later came to dominate

industrial activities in connection with the war. Under the leadership of Howard E. Coffin, the Committee completed a survey of industrial plants which became invaluable later and led to a general awakening among industrial leaders to the importance of industry in modern war. This feeling took form later in the creation of the Council of National Defense, authorized by act of Congress, and this agency carried on the work of the Industrial Preparedness Committee and added greatly to its effectiveness. By degrees, the Council of National Defense ceded its powers to its own Advisory Commission, which became the chief factor in planning the control of industry. Operating without direct authority from Congress, it was nevertheless a powerful arm of the Government and laid the foundations of the stupendous industrial effort which was later put forth. Accused at the time of being a "secret government", this Committee of seven devised the entire system of purchasing war supplies, planned a press censorship, designed a system of food control, and selected its director (Herbert C. Hoover, who later became president of the United States), laid out a day-light-saving scheme, and anticipated practically every war measure that was later enacted by Congress, all months before Congress declared war against Germany.

Notwithstanding this, however, the actual work of organizing the nation for war made no headway until we entered the war and it was weeks, even months, before results were apparent. The real power behind the Advisory Commission, practically from its inception, was Bernard M. Baruch, who later became its Chairman, as well as Chairman of the vastly more powerful War Industries Board. Up to this time Baruch had achieved fame merely as a "Wall Street operator" and

had amassed a fortune in the market, but he quickly developed powers of leadership which placed him at the head of the war effort. It is not too much to say that more than any other man, Baruch was responsible for the co-ordination of our military and industrial efforts when this was finally brought about. But this was not until the War Industries Board came into actual being and, in fact, had suffered several reorganizations, as a result of which Baruch emerged as its head.

In organizing the country for war, it is to be admitted that the Government was forced to overcome an amazing amount of inertia and inefficiency, coupled with official opposition and ignorance of the actual requirements of the situation. Merely as an instance of this, immediately upon the Declaration of War, the Advisory Commission recommended the appropriation of a sum sufficient to raise and keep an army of one million men in the field, but the War Department was unable to agree upon the amount involved or its allocation to the component units. The question was thrashed out before the Senate Appropriations Committee and when it was first broached the chairman of the Committee exclaimed in consternation: "My God! You don't intend to send men over there, do you?" Evidently the politicians looked upon our Declaration of War as an empty gesture and our participation as a form of parade, the bills for which were to be footed and paid for from increased purchases of war materials from our manufacturers. The shortsightedness of the political leaders knew no bounds during the early days of the war and it gives us pause to think of what might have been the result if the War Industries Board had not arrived at a more adequate conception of our task and the measures necessary to fulfill it.

That the situation was finally met, and well met, was due largely to the corps of "dollar a year men" with which Baruch surrounded himself in the War Industries Board. Reaching out to the greatest industrial organizations, he practically commandeered the services of the ablest executives, and it was largely on account of their drive and energy that results were finally obtained. Serving in most cases without pay and meeting their own expenses, thousands of these men gave their services without stint in a spirit of real patriotism. It is on record that one of these "dollar a year men" gave up a salary of $25,000 in order to serve the Government without pay. Another gave up salaries aggregating $85,000, with bonuses and other profits several times as large.

Fundamentally speaking, the function of the War Industries Board was to analyze the sources of supply for materials needed for war purposes, to allocate commodities and encourage the production of those for which there was likely to be a lack, to direct the orderly flow of materials into the channels where they would do the most good, and to take such other action as might be needed to provide an adequate supply of materials. In a practical sense, these powers came in the long run to include practically all social and industrial functions, from establishing the hours of daylight to fixing the wages of labor and prices of commodities. It kept its hands strictly off the war machine, but its activities had a direct bearing on decisions in the field.

Probably the most difficult problem of organization which faced the Board was the co-ordination of purchases and this was not fully solved until E. R. Stettinius, a partner in the banking firm of J. P. Morgan & Company, came into the War Department as surveyor

General of Supplies. From the start a weak spot in purchasing had been the War Department, whose purchasing organization was lamentably involved and inefficient. At first, Stettinius was brought in to uphold the authority of the Department as opposed to the War Industries Board but he quickly found a common ground and this contributed vastly to efficiency.

Supplementing the activities of the War Industries Board, the chief agencies of the government in prosecuting the war were the Railroad Administration, the Food Administration, the Fuel Administration, the Shipping Board and the War Trade Board. In the course of time all units developed team play to an exceptional degree, a fact which is explained in large part by the high order of talent that was employed in all agencies. Business men of large achievement, in most cases, they got together on all questions and solved them in the interest of efficiency.

But it is only fair to admit that much of this would have been impossible but for the genius of Baruch, whose tact, driving power and flair for getting at facts were in constant demand. Pursuing a fact to the last decimal point, his advice or decisions were seldom in error and he possessed a grasp of the major war problems which was all comprehending. Industry lost a great executive when Wall Street claimed Baruch. Fortunately, he was beholden to no interests or set of men. There were no strings tied to him and the billion-dollar steel trust had no more standing in his eyes than an unknown iron foundry in New England. Moreover, he was accustomed to deal with large interests and to think in large figures and this experience had much to do with the results that were achieved. Negotiating with Chile

for its entire nitrate output or with Spain for a hundred thousand mules were all in a day's work for him.

Technically, the War Industries Board had no direct supervision over purchases, but it served as the "general eye of all supply departments" and its activities in this direction became so valuable that from a practical standpoint it virtually put the final okay on all orders for supplies. By control of priorities it maintained a firm hold on the situation. For example, during the later stages of the war there was a great hue and cry over the lack of American-made shells at the front. It was a fact that not an American-made shell was fired during the war, but Baruch discovered that the French Mills were working only half time for lack of steel, so he diverted two of the biggest steel plants over here to the production of 75 MM. shell steel, giving them full priority, and within three months shell steel was arriving at the French Mills and it kept on rolling in in such quantities that reserves ultimately attained a total of nineteen million shells, despite the fact that 10,000 guns were blazing away at the front.

The question of priorities was a difficult and complex one. Should railroad equipment go to the front to haul ammunition to the fighting lines, or should it go to Chile to haul nitrate, which was essential to the manufacture of ammunition? Should nitrate go to the powder mills to supply the gunners with ammunition, or should it go to fertilizer to foster food crops, without which the gunners could not exist? Should steel go to the Naval vessels, whose function was to destroy sub-marines, or should it go to merchant ships, which could not leave port unless the sub-marines were sunk? Should cranes be shipped to American wharves for loading supplies on ships, or to French wharves for taking them off?

Should coal go to Italy to supply power for munition plants, or should it be used here to supply steel for the same plants? Should ships be used to bring coffee from Brazil to feed the industrial population, or to carry manganese for shell steel? Should women be deprived of corset steel, or of tin cans for preserving foods? These and a thousand other questions arose constantly to trouble this division of the War Industries Board. Incidentally, it may be added that the question of corset steel was settled in favor of tin for canning, with the result that women went corsetless and have remained so ever since.

As the war went on and our output of war materials and man power increased, it became evident that the neck of the bottle was transport. Men or materials, which were to have the right of way? The question was finally settled in favor of fighting men, with the result that 2,100,000 soldiers landed in France before the war ended. Consider that this was accomplished in the face of an original program that called for the delivery of less than half that number, starting with 100,000 in the month of July, 1918. This month's quota was anticipated by the delivery of 240,000 in the month of May, or two months ahead of schedule, and in the month of July 306,000 men were actually transported.

In the meantime, the nation's total military establishment had been increased from 190,000 men in March, 1917 to 3,665,000 in November, 1918. As to the extent of the war machine's draft on industry, less than eight months after we entered the War, the Secretary of War reported that "of shoes more than 2,000,000 pairs have already been purchased or are in the process of delivery, of blankets 17,000,000, of flannel shirting more than 33,000,000 yards, of melton cloth more than

50,000,000 yards, of various kinds of other goods for shelter tents and other necessary uses more than 135,-000,000 yards". In addition to this the War Department bought 82,500 trucks, 16,000 motor cars, 27,000 motor cycles and 2,137,025 rifles. Total purchases of clothing and footwear amounted to $514,000,000.

The financing of America's participation in the War was a momentous undertaking and it was accomplished in a series of "drives" which ultimately netted some twenty billion dollars and, incidentally, laid the foundation for the orgy of speculation that ended with the crash of 1929. Under the leadership of William G. McAdoo, Secretary of the Treasury, the country was overrun with Liberty Bond salesmen, who educated the public up to a new concept of saving through investment. Under the urge of patriotic fervor, people who did not know the difference between a bond and plough share put their all into government bonds and the term "bond" came to connote something sacred and imbued with the utmost degree of safety.

Strictly speaking, the financing of the War divided itself into two phases—first, the Liberty Loan campaigns, which were undertaken during the actual progress of the War, and the Victory Loan campaign, which was carried through in 1919, after the close of the War, and served as a sort of clean-up fund. The Liberty Loans were four in number—starting with $2,000,000,-000 in June, 1917 and followed by $3,800,000,000 in November of the same year, $4,200,000 in May, 1918 and $6,000,000,000 in October, 1918. The Victory Loan amounted to $4,500,000,000 and was floated five months after the War ended. All the issues were heavily over-subscribed. Pending actual flotation of the loans, the Treasury issued "Certificates of Indebtedness",

short term notes bearing interest at the rate of 3% to 3½%, which were promptly absorbed by the banks and provided interim funds to cover expenditures. The first war loan of 1917 carried interest at the rate of 3½%, somewhat less than the going rate for money, and was exempt from Federal, State and City taxes. The second war loan bore an interest rate of 4%, but immunity from taxation was limited to the basic income tax and did not apply to sur-taxes or war-profits and excess profits taxes. The third and fourth loans carried a 4¼% rate and were subject to the same exemption as the second loan. The post-war Victory loan bore an interest rate of 4¾%. None of the issues had the circulation privilege, which was a feature of all previous government financing, but this did not have a deterrent effect, as the new Federal Reserve System had ample means of increasing credit without recourse to issuing currency on the basis of bond deposits. In organizing the drives that resulted in the oversubscription of these immense sums, the Treasury Department overlooked no avenue of appeal. Based on the twelve regional banks in the Federal Reserve System, Liberty Loan Committees were formed in each center and the work of solicitation extended out into the most remote hamlets. All in all, there were more than 50,000,000 individual subscriptions.

That the withdrawal of such immense sums from the nation's capital resources should have some economic effect was to be expected, but the dislocation was not severe nor long lasting, since the funds were quickly put back into circulation through payments for war supplies, either for the benefit of the nation's military forces or on behalf of the Allies, whose purchases were largely made from our manufacturers. But the expenditure of these funds had a repercussion in another direction,

which laid the seeds of future trouble. By stimulating our war effort to the prodigious extent that occurred, plant capacity was increased to a point where it far exceeded normal requirements and industry has not yet overcome the effects of this lack of adjustment. A major cause of the depression of the Thirties was the fact that the industrial establishment was geared up to produce more goods than a demand existed for and when a tightening up of credit restricted markets further, the entire machine was thrown out of balance. This is a condition that may require another decade to correct.

Despite the great sums that were raised through the sale of Liberty Bonds, this was not enough in itself to meet the drain on the Treasury, as a considerable portion of these funds were diverted to provide for the needs of the Allies and accordingly it became necessary to supplement this financing by revenue from other sources. As a means of providing this additional income, Congress decreed a wide group of special war taxes and stamp taxes of many descriptions. More than four billion dollars was provided from this source during 1918 and the nation accustomed itself to a burden of taxation which has never been wholly removed. The total cost of the war to the United States over a period of one and a half years was calculated to be in excess of $32,000,000,000, or approximately ten times the cost of the Civil War, which covered a period of four years.

In striking contrast to previous experience, there was little graft in the actual prosecution of the war—that is, graft in the usual sense of the term, such as the "Embalmed Beef" scandal of the Spanish-American War or the "Condemned Rifles" scandal of the Civil War—but profiteering flourished on a grand scale. As a matter of fact it got off to a flying start during the

period of neutrality when America was the main source of supply for the Allies. According to the reports of the Commissioner of Internal Revenue, the number of persons reporting millionaire incomes increased from 7,509 in 1914 to 17,085 in 1916, or two and one-third times; the number reporting multimillionaire incomes increased from 174 in 1914 to 582 in 1916, or more than three times. How much further this access of wealth was carried during the actual war period, when profiteering really came into its own, is not of record but it is fair to assume that the great war fortunes of 1916 were increased at least two or three times over.

Prior to our entrance into the war J. P. Morgan and Company acted as fiscal agents for the Allies. All told they handled purchases to the amount of $2,063,350,000 and no whisper of suspicion has been directed against either their integrity or efficiency in handling this vast sum. In fact, their influence was exerted uniformly against excessive profits but, despite this fact, the records show that the big corporations did not fare badly during these years. The actual extent of corporate profits during the period of neutrality was revealed in some detail at the time by Prof. Scott Nearing, (who was a socialist and hence suspect, but it may be noted in passing that in this instance his figures were later confirmed in full). According to Nearing's analysis, the Republic Iron and Steel Company made an average profit in the three pre-war years of about $2,500,000; in 1916 its profits were $147,899,163. Against an average profit of $2,000,000 per annum the American Sugar Refining Company made $6,000,000 in 1916; the Central Leather Company made $15,500,000 in 1916 against $3,500,000 before; the General Chemical Company made $12,286,826 against $2,500,000; the profit

of the Anaconda Copper Mining Company in 1916 amounted to $57,941,834 as compared with $12,000,000 before; and in 1916 the United States Steel Corporation showed a profit of $271,531,730 against an average profit of only $63,500,000 before the war. During the same period the earnings of the Bethlehem Steel Company jumped from an average of $3,000,000 to $43,593,968 and those of the International Nickel Company rose from $4,000,000 to $73,500,000.

Strikingly in line with the foregoing figures, the Duponts recently testified before the Senate Munitions Investigation Committee that the total war orders of the E. I. Dupont de Nemours Company amounted to $1,245,000,000 and that during the war years (1915 to 1918, inclusive) the company actually paid dividends amounting to 458% of the original par value of its stock.

But, startling as these figures are, it was not until we entered the war that the bars were really let down and from that point on industry lost no opportunity to feather its nest. The greatest profits, of course, went to the munition makers, who cheerfully fell in line with the ancient tradition of "soaking the government" in compensation for their so-called patriotic services. Chief among this element were the "armament ring", (generally understood to be the Bethlehem, Midvale and Carnegie steel companies); the shot and shell makers, which included the above as well as a wide scattering of other steel concerns; the cannon builders, which included the leading units in Bethlehem and U. S. Steel; the rifle makers, headed by Remington (now a Dupont property), Winchester and Savage Arms; the powder makers, largely restricted to Dupont and allied interests; the gas manufacturers, again headed by Dupont

and including the greater part of the dye industry, and the aircraft builders, headed by Packard and including the leading automobile manufacturers. Occupying a place of its own was the Electric Boat Company, which had a virtual monopoly of sub-marine building.

To these groups went the cream of the profits but other industries were not overlooked. The textile industry, the boot and shoe industry, the packing industry, the ship-building industry, the automobile and motor truck industry all found a place at the public trough and waxed fat at the expense of the government. Among them were various groups which were not unaccustomed to raiding the public purse. Thus, for a generation or more the armament ring had been selling to the government armour plate for battleships at prices ranging from $411 to $604 a ton against a cost which was determined by the Senate Committee on Naval Affairs, in 1916, to be $262 per ton and was admitted by Eugene R. Grace, head of the Bethlehem Steel Company, not to exceed $315 per ton. This in the face of the fact that the companies had sold the same plate to Russia at $249 a ton, to Italy at $395 a ton and to Japan at $406.35 a ton. Evidently it is an accepted principle of Big Business, in war times at least, that one's own government should be made to "pay through the nose".

During the war, as was to be expected, steel and copper were two of the chief items of profit and it is an interesting fact that, in 1916 and 1917, according to Senate Document 259, report on "Corporate earnings and Government Revenues", the United States Steel Corporation actually put aside $888,931,000 in profits, or more than the total par value of its outstanding stock. (The same report states that profits in other fields ranged from 25% to 7,856%.)

At the beginning of the war the copper industry made a magnificent gesture by agreeing (under pressure from Baruch) to accept 16 2/3 cents a pound for 45,110,000 pounds of copper in the face of a market price of 35 cents on foreign orders, although it may be noted that it cost only 8 to 10 cents a pound to produce copper at the time. Quickly recovering from this attack of generosity, the industry raised the price to 23½ cents and ultimately exacted a price of 26 cents a pound. As a result the copper companies made a fairly good record of earnings during the war, as appears from the Congressional Committee report on "Expenditures in the Ordnance Department", Sixty-sixth Congress, Report No. 1400.

In part the report states: "The Utah Copper Company in 1917 made a profit of $32,000,000, which was 200 per cent of its capital stock, and in 1918 a profit of $24,750,000, which was 150 per cent of its capital stock. The Calumet and Hecla Company in 1917 made a profit of $9,500,000, or 800 per cent of its capital stock, and in 1918 $3,500,000, or 300 per cent of its capital stock. The Inspiration Consolidated Copper Company in 1917 made a profit of $12,260,000, or 55 per cent of its capital stock, and in 1918 $9,250,000, or 40 per cent of its capital stock. The Kennecot Copper Company in 1917 made a profit of $11,826,000, or 70 per cent of its capital stock and in 1918 $9,390,135.90, or 60 per cent of its capital stock . . . the profits here given are net."

But despite these evidences of a willingness on the part of Big Business to take advantage of the government in its hour of need, there was little petty graft and government officials both in war and civilian departments on the whole kept their hands clean. The nearest approach to venality grew out of the operation of cost-

plus contracts which led to the exaction of unconscionable profits, often concealed, chiefly in plant construction, such as later came to light in the Aircraft scandals and Veterans' Bureau scandal, although the latter was a post-war development involving members of the Harding administration. The same applies to the Alien Property Custodian scandals which cost a number of the "good fellows" with which Wilson's successor surrounded himself a stretch in prison and led to the mysterious "suicide" of Jess Smith, who was Man Friday to Harding's Attorney-General, James F. Daugherty.

VIII

THE AFTERMATH

AS THE LAST GUN was silenced on the Western front in November, 1918, American business looked to the future with mingled feelings of doubt and confidence. In all previous experience costly wars had been followed by prolonged periods of industrial depression and there were reasons to believe that history would repeat itself. It is true that the underlying financial condition of the country was sound. Widespread prosperity had affected all classes of the population. Our gold supply had been doubled. The banks were in ample funds. Money was easy. In contrast, the wealth of other nations had been shot away. Their financial resources were exhausted. Their plants were dismantled. Their granaries empty. It appeared that it was to be America's task to replenish and rebuild a war-torn world, and we were not loath to assume the responsibility.

But there were obvious obstacles. To begin with, Europe was impoverished and few nations outside the Continent were any better off. Credit was needed in large amounts. Likewise, it was necessary to recognize the fact that in our own country industry faced serious dislocation on account of the cessation of war orders, and the reabsorption of over four million men into the industrial structure offered a problem of no mean pro-

portions. As it happened, the latter task was accomplished with a minimum of friction. During the war female labor had been liberally utilized and this element was gradually forced back into its normal sphere. By the millions women drifted back into the home and men workers took their places in the ranks of industry, but the dislocation arising out of the withdrawal of war orders was more difficult to control.

Throughout the country plant capacity had been stepped up to meet the anticipated war demand and the sudden ending of hostilities had thrown the industrial machine entirely out of balance. As a result, many industrial organizations found it necessary to reduce or discontinue operations while they looked over the field and made their plans for the future. This resulted in unemployment, which in turn restricted purchasing power, and business fell into a slump in consequence. When prices began to fall and plants to shut down it looked as if the sceptics had won the day, but a sudden and unexpected reversal of events changed the face of matters completely. Through credits established by American banks seeking an outlet for surplus funds foreign buyers suddenly found themselves in a position to finance their purchases and the export movement was resumed. This change occurred in the Spring and by the end of the year export shipments had reached a total of $7,920,000,000, as compared with $6,233,000,000, in 1918—a gain of over a billion and a half, notwithstanding the "slow" first quarter. Of course, the character of exports had entirely altered. In place of explosives and other essentials for the manufacture of munitions, exports of cotton and cotton manufactures increased $306,000,000, boots and shoes $20,000,000, wearing apparel $13,000,000, paper and paper products

$29,000,000, agricultural implements and hardware $12,000,000.

Under the spur of these orders business soon assumed something like wartime proportions and the familiar signs of prosperity again appeared at every hand. Unemployment ceased. Prices went up and before the end of the year business was moving at a pace that caused some anxiety as to a shortage of materials. In fear of this condition, as well as of the ascending scale of prices, manufacturers increased their orders for raw materials. On the theory that orders would be filled only in part, they bought ahead of actual requirements thereby creating an abnormal and artificial demand. This, in turn, forced prices up again and by the end of the year wheat was selling at $3.50 a bushel, cotton at 48¾ cents a pound, higher than either had sold in war times. Between January and September, 1919 the price of sugar increased 33%, the price of wool 25%. Shortly after the close of the war the government price index, based on 478 commodities stood at 247, as compared with 214 during the war and 173 during the period of neutrality.

Curiously, advancing prices were accompanied by a veritable orgy of spending, which extended down into the lowest strata of the population. It was as if lifting the tension of war had sent the whole country off on a buying spree that knew no bounds. In order to keep pace with demand merchants increased their orders and manufacturers protected themselves by advance orders that were often several times actual requirements. Deliveries were allocated on a percentage basis. There was widespread speculation both in stocks and in commodities. Over-extension was universal and the banks were carrying the burden. Total rediscounts of the Federal Reserve System increased from $1,797,800,000 at the

end of the war to $2,189,400,000 in November, 1919.

By maintaining a low rediscount rate—to which the government was committed by war-time pledges to carry loans on Liberty Bonds at a nominal interest rate—cheap money was rendered available for speculation and ample advantage was taken of this fact. But, as this situation came to a head, it brought about its own undoing. Trouble started with British exchange, which took a turn that resulted in heavy withdrawals of gold, almost half a billion dollars being shipped out for foreign account. This resulted in a tightening up of banking credit and borrowers began to feel the pinch. On top of this, early in November, the New York Federal Reserve Bank announced an increase in the rediscount rate and a near-panic occurred in the stock market. In the course of a week or two industrial stocks declined from 60 to 125 points and there was widespread concern about the general outlook.

In the face of these developments the banks drew in their horns still further and Europe began to find it increasingly difficult to secure credit. Up to the end of the year the banks had advanced some two billion dollars on foreign letters of credit. These credits were taken up largely out of the post-war advances which the Treasury had authorized, but when this reservoir was exhausted no further resources were in sight and European buying power was at an end, for the time being at least. Naturally this was reflected in an immediate letdown in orders, but export business still continued at a rapid rate with South America and the Orient, chiefly Japan, which bought heavily of cotton goods, copper, and machinery and sold us silk in return. In these parts of the world a similar outburst of prosperity had occurred and the same buying waves were under way.

Inflation was no less rampant than in America and the bubble burst first in Japan, where a stock market panic occurred in March, 1920, followed by a rapid drop in commodity prices, leaving our banks hung up with millions of pounds of raw silk which they were carrying for American importers at top prices. The Argentine had been a heavy buyer of manufactured goods and likewise experienced a sudden deflation during the Summer which resulted in the cancellation of millions of dollars of orders. At this end the manufacturers had discounted their drafts covering many of these shipments which were on the way and again the banks found themselves in a predicament. This experience was repeated in various countries, where panic and depression seemed to be cropping out like a universal form of measles, and it was not long before our banks were loaded up with "frozen credits" and our few remaining export markets were closed.

In the meantime rising prices had set the stage for a peculiar phenomenon which affected our buying population. From a race of spendthrifts we suddenly became a race of misers, as a "Buyers' Strike" spread throughout the land. Rapidly assuming the form of an organized movement, consumers everywhere banded together and pledged themselves to make no purchases until prices came down. Old clothes were taken down from the attic and made over. Discarded shoes were patched up and worn. "Overall Clubs", "Old Clothes Clubs" and similar associations sprang up on every hand. In New York City an "Economy Parade" marshalled thousands in its ranks. In the aggregate this movement had a telling effect and goods backed up on the merchants' shelves to an extent that gave them much to worry about.

As has been the case in all major depressions, the

crisis reached its worst in the Autumn, when as a rule the trade position is put to a severe test and credit is most in demand. Swamped by foreign commitments and facing depleted reserves, the banks were forced to bring about liquidation on a large scale. Hoarded merchandise was dumped on the market without regard to values and prices crumbled to little or nothing. Within the space of six months wool prices fell from 66 cents a pound to less than 40, rubber from 39 to 19, copper from 17 1/8 to 6 1/8, sugar from 21 to 8, in some cases establishing all-time lows. This occasioned similar liquidation on foreign markets and the scarcity of funds practically ended the sale of our manufactured goods abroad, where warehouses and even sidewalks were piled high with our products, while "frozen credits" in our banks attained unprecedented proportions.

Fortunately the elastic new Federal Reserve System was equal to the strain and there were few casualties among the banks. Unlike other similar depressions, the crisis of the early Twenties was not a bankers' or stock market panic. There were no runs on banks, no failures of important banking or brokerage houses. True, there were two severe "breaks" in the market—the first toward the end of 1919, when the first signs of the turn in the business cycle appeared, and again in the Spring of 1920, when stocks entered upon a prolonged period of decline which carried speculative issues from fifty to sixty per cent below the lows of 1919, but this was the effect of liquidation rather than a contributing cause.

Essentially it is evident in the light of present knowledge that the condition in which the country found itself during these trying times was due to widespread overextension, growing out of an undue inflation of banking credit which lifted prices to artificial levels. This led

straight back to the government's policy of keeping the Federal Reserve rediscount rate down to the level of the Liberty Loan interest rate, thereby unloosing a vast flood of cheap money for the benefit of speculators. Yielding to the temptation afforded by this easy money, many manufacturers likewise were induced to inflate their inventories beyond the danger point and when deflation set in it had a severe repercussion on industry. Unable to liquidate their inventories and so to meet bank loans, manufacturers were forced into receivership and reorganizations were the order of the day. During 1920 and 1921 there was an increase of 73 per cent in commercial failures over the previous two years.

To add to the burdens of the depression, the government's guaranty of wheat prices expired in the middle of 1920, just when the crisis was at its height. The price of the 1919 crop had been fixed by congressional action at $2.20 per bushel. For a while speculation held the price up and, in fact, as late as June, wheat was selling at $3.13, but from that point it declined steadily, breaking $2 in October, and a year later, in November, 1921, selling down to $1.00½. The prices of other agricultural products declined in sympathy with wheat and the farmer entered upon a long spell of "hard times", the end of which is not yet in sight. Responding to the urgent call of the Hoover-controlled Food Administration during the war, farmers had increased their acreage extensively, in most cases mortgaging their total holdings in order to cover additional land purchases. Within a period of ten years farm values had risen some 200 per cent and these values formed the basis for new borrowings. When farm prices dropped, naturally land values also declined and the banks found themselves loaded up with mortgages of doubtful value. Foreclosures were

general and the farming community as a whole suffered a devastating loss. But this is the lesson of all depressions. Deflation carries a trail of grief that is written in blasted hopes and wrecked fortunes.

How the banks stood up under the combined drain upon them during these arduous times it is difficult to understand, particularly in the light of events of the early Thirties, when the banking system collapsed under the strain of liquidation; but it is impossible to escape the conclusion that during this time the direction of the system was in safer hands than it later fell into. Notwithstanding this, there was a fatal weakness in the Federal Reserve policy during this period, for which, however, the government was responsible rather than the Reserve officials. Having committed the System to a policy of carrying loans on Liberty Bond subscriptions at the bond rate, it followed that the banks in turn were enabled to rediscount such loans at the going rate of 4% to 4¼% and then turn around and lend the proceeds to other borrowers at the commercial rate of 5% or 6%. Obviously this was a profitable procedure from the banks' standpoint and they took full advantage of their opportunity during the "flush" period, playing into the hands of speculators who found it possible to secure ample funds for their purposes. Ordinarily the increasing demand for money would have been reflected in higher rates, but this natural process was set at naught by the low rediscount rate which the Reserve authorities maintained at the dictation of the government. In consequence national bank loans increased more than $2,000,000,000 during the last ten months of 1919 and this expansion of bank credit was directly responsible for increasing prices and the artificial wave of prosperity which followed in their wake. But this situation brought

its own corrective. As soon as the Federal Reserve policy was changed and the rediscount rate raised, the banks were no longer in a position to turn over their Liberty Bond loans at a profit and so were forced to call for payment. In the ensuing liquidation the price of Liberty Loan 4½'s dropped to 82, even the Victory Loan 4¾'s, maturing only three years later, sold at 5 points below par.

Taken as a whole, the period of wild prosperity that followed the war might properly be called the Era of the Great Illusion. The sudden improvement in business originated in an abnormal and temporary export demand, which was bound to cease as soon as credit was exhausted. In its turn, this unexpected wave of prosperity brought about a domestic demand which added to the illusion and induced speculation on a vast scale; but this, like the overnight export demand, rested on a foundation of "cheap money". As soon as the credit prop was withdrawn, the whole structure fell to the ground, like a house of cards, and the country was steeped in depression.

Such was the course of the post-war depression, and in its essentials it was not vastly different from other financial disturbances of similar scope and intensity.

IX

NORMALCY REIGNS

AS PRESIDENT WILSON limped out of the White House, broken in spirit and body, and the new President, Warren G. Harding, took his place with a dignity unmarred by his affability, an unmistakable sigh of relief went up throughout the nation. For four long years the American people had been on a spiritual jag. Their emotions aroused by the first gun that boomed over Flanders Field, there had been no let-down. In long succession they had thrilled to stories of heroism and martyrdom, to appeals for aid and sympathy, to pledges of sacrifice and self-denial, and the *Weltschmerz* lay heavy on their souls. They were weary. They were ready for a rest. Reaction was overdue.

In a more practical sense, business yearned for the old order. It had its eyes on the good old days when you could get what you wanted in Washington if you knew the "right people". No less than the commercial minded, the Wall Street fraternity was sick of war and its alarums. Markets are not safe to fool with in times when a powder barrel is always likely to explode somewhere and close the exchanges, leaving their devotees hung up with a line that may be 20 points off at the reopening. No more of these foreign entanglements, said both western senators and the eastern business interests.

"Back to normalcy", said Mr. Harding, using a word that appeared in no dictionary.

And normalcy, or normality, to employ the word in its correct form, was just what the people wanted. It was for this that they elected Harding, and with certain variations and excrescences, they got what they wanted. From the first, his appointments—those at least that the public heard about—inspired confidence in a return to sound principles. Charles E. Hughes—who had lost a lot of his early liberalism through contact with Wall Street—as Secretary of State. Andrew W. Mellon—who had never been suspected of entertaining a liberal principle in all his life—as Secretary of the Treasury. It was almost like the good old times when Mark Hanna ran the show. Quickly the President got Congress to pass a bill putting the government's affairs on a unified budget basis. (The business interests liked that). Peace was made with Germany. A satisfactory agreement for refunding the British war debt was concluded. Not a final one, it may be added in passing. And soon the Arms parley got under way, promising to advance the cause of peace and to open up foreign markets to our manufacturers.

In the meantime the depression had lessened in severity. Under the leadership of Henry Ford, business had been induced to ignore the advice of the banking element to "deflate labor" and wage levels had been maintained, with the result that as industry quickened its pace the home market expanded. The urge for travel by motor car likewise had not been lessened by the brief let-down in business and the automobile industry led the forces of recovery. In 1922, 2,659,064 motor vehicles were built and sold, as compared with 1,589,323 in 1921. The next year 3,837,706 cars were put on the road. In 1921,

for the first time, the radio made its appearance as a social and economic factor when President Harding's inaugural address was broadcast over a nationwide hook-up. The following year sales of radios and their accessories exceeded \$60,000,000. In 1923 this was more than doubled, blazing the way for an industry that reached a sales peak of \$842,548,000 only six years later.

During these early years of the Twenties we note the birth of another factor which entered largely into the pseudo-prosperity that swept the country later during this decade—installment selling. Beginning with automobile financing, this new form of credit was gradually extended until it covered radios and other musical instruments, refrigerating systems and household electrical devices, plumbing, dental and medical services; even vacation tours and funerals were finally included in this universal form of borrowing against the future. If need be, one could be brought into the world and pass out of it on a monthly payment basis.

Along with the expansion of business and earnings that set in with the Reign of Normalcy, came an improvement in markets and the public imagination became inflamed at the possibilities of future profits. During the Liberty Loan drives of wartimes the man in the street had become thoroughly educated up to the mechanics of investing and this process now operated to bring about his undoing. The ubiquitous stock salesman developed a new and ingenious technique and promotions by the thousands were foisted on an avid public. High pressure security men set up schools for training hordes of salesmen and it was not uncommon to find a thousand or more men working in a single organization. Proceeding on the theory that any salesman, how-

ever inept, could produce at least a few sales, even if, as a last resort, he had to turn to his family connections, these organizations went out into the highways and byways and picked up men of every description who, in turn, unearthed vast sums for investment, much of which got no further than the promoter's pocket. Following on their heels came the "reloader" and the "dynamiter", who developed to the *nth* degree the art of inducing ill-advised investors to throw good money after bad. The last penny of the widow and orphan often went into their insatiable maw, until finally there developed a well-defined public sentiment against this conscienceless form of greed. This resulted in the establishment of Better Business Bureaus in all communities of importance, which made it their special business to protect the investor, as well as other buyers, from unsound and fradulent schemes. "Before you invest, investigate" was their slogan—but unfortunately since time immemorial the public has done its investigating *after* it paid its money, and therefore these well-meant efforts were not always productive of good. All told, it is estimated that more than a billion dollars a year was sunk by the gullible public in unsound or crooked stock selling schemes, and this takes no account of equally fraudulent schemes that were put out under the protecting wing of Wall Street or the various stock exchanges throughout the country. This, too, was one of the results which the beneficent Reign of Normalcy led us into.

One of the most persistent offenders against the investing public was the notorious George Graham Rice, whose "come-on" or tipster sheet, the *Wall Street Iconoclast,* was the means of building up an enormous traffic in securities of doubtful value. Following a sojourn in the sombre institution whose gray walls overlook the

Hudson at Ossining, New York, (Sing Sing Prison), Rice turned up again in the very heart of Wall Street, where he continued to ply his trade until he fell foul of the Postal authorities, who duly sent him to Atlanta.

Somewhat less ingenious but no less disastrous to gullible investors were the operations of the plausible and simple-minded Ponzi, who took some millions of dollars away from tight-fisted New Englanders on the plea that he would pay them 50% return on their money —which he did, by constantly passing out new capital for this purpose until the authorities finally caught up with him and, like Rice, sent him into quarters where he was no longer a menace to investors.

A phenomenon of these years of normalcy—which indicates how abnormal in reality they were—was the land speculation craze that reached its climax in the Florida boom.

Starting nowhere in particular and gathering momentum as it took form, this development was a curious intermixture of the loose code of business ethics that prevailed during the early Twenties and the speculative mania that culminated in the crash of 1929. Fostered by blatant propaganda and enraptured rhetorical outbursts that presented the advantages of the Florida scene and climate in no uncertain terms, it enlisted the efforts of a horde of operators of doubtful antecedents and intrigued the interest of a vast section of the populace. From bootblacks to bankers the public bought lots in mythical "developments", often while they were still under water or wholly undeveloped. As a rule, buyers paid only a small deposit, or "binder", and never expected to be called upon for additional payments, as they counted on turning over the property at a profit before further payments fell due. Generally the binder

itself represented more than the original cost of the property, so that the operator was "on velvet" from the start. Land that cost \$25 or \$50 an acre sold for \$500 or \$1,000 a lot and, strange as it seems, during the height of the boom at least, the purchaser often realized a profit on such transactions.

In point of fact the boom throve on tales of easy money made in this way. On the ground in Miami or Palm Beach or St. Petersburg or a hundred other centers one heard countless tales of fortunes made in this form of speculation. According to these epics, a widow who had picked up a piece of land for the nominal sum of \$25 some years before sold it for more than \$100,000 in 1925. A tract in the business section of Miami which had been worth less than \$250,000 before the boom was broken up into lots and sold for a million and a half. A single lot in the same section was bought for \$800 during the early stages of the boom and sold for \$150,000 two or three years later.

Under the spell of such tales the public rushed in and eagerly bid for lots that often existed only in blue-print form or in the imagination of the developer. Cities sprang up over night and the population of jerkwater towns increased five or ten times over. Entire sub-divisions were sold out in a single day, the transactions often running into millions of dollars. Prices reached prodigious heights. \$5,000 to \$10,000 for inside lots. \$25,000 to \$75,000 for waterfront or seashore lots. Price was a secondary consideration when you paid down only a ten-per-cent binder and took a hundred-per-cent profit before the next payment was due.

It all seemed so easy! And so it was—until the boom began to fade. Then things happened. Those who held binders found it increasingly difficult to unload their

"bargains" on equally gullible buyers. They began to default on their payments and the property came back on the previous purchasers often loaded with taxes and assessments. Development ceased and the rosy promises which had been glibly made by high pressure salesmen vanished into thin air. The land was filled with half-finished or barely-started developments and the skeletons of unfinished skyscrapers dotted the landscape.

Then came the hurricanes—two in rapid succession—which blotted out much that the hand of man had wrought and left the Gold Coast of Florida looking like a plugged nickel. Gone now were the "easy-money" boys, the hosts of land salesmen, the hordes of not-too-inquisitive buyers. Deserted the palaces of the "get-rich-quick", the esplanades and waterways that graced the dream cities of the Florida littoral. Broke the gullible many who had tossed their money into the whirlpool of speculation.

But, as the land craze subsided, there was still a chance for those who sought a quick and easy road to riches. For the Coolidge Bull Market was just getting under way.

It was during this period of free and easy money, when the Apostles of Normalcy exercised their benign influence, that the nationwide effort to transfer the people's savings into bond investments, good, bad and indifferent, took form. During the war the term "bond" had acquired a sacrosanct meaning. Symbol of patriotism and sacrifice for the nation's good, it was also established in the public mind as another word for Safety. If government bonds were safe, why not other bonds? If bonds that paid 4¼% were good, why not bonds that paid 7% or 8%? After all, a bond was a bond.

Sensing this state of mind and coveting the profits accruing to investment houses that took advantage of it, the big banks began to cast about for some means of taking a hand in the business. Obviously this was not a banking function, for, strictly speaking, it is the function of the banker to stand between the depositor and promoter. Likewise it was opposed to the banker's interests in a sense, since every bond sold to his customers reduced his deposits by so much; but, he reasoned, if others were going to make inroads on his resources, why not get some of the gravy? Certainly there was profit in it. As a concession to ancient prejudices, however, he took pains to keep his skirts clean, at least so far as the record went, and decided to set up a separate organization for the purpose of carrying out his questionable program. And so the Security Affiliate was born.

Financed by the bank, its underwritings carried by the bank and generally officered by the bank, this ingenious piece of mechanism was the bank's *alter ego,* its Siamese twin, and in many cases it came near to being the dominant member of the partnership. Thus, the National City Company contributed to the treasury of the National City Bank profits that were sufficient in themselves to pay the bank's entire dividend during 1928 and 1929. In some instances these affiliates were owned outright by the bank; in others they were sister enterprises and were financed separately by the bank's stockholders, but from the operating standpoint, to all intents and purposes, they were an integral part of the bank.

Starting timidly, with every evidence of caution and conservatism, these institutions gradually expanded the scope of their operations until the larger organizations maintained branches at every important center. Supple-

menting their own organizations were syndicate connections which offered an outlet for securities on a vast scale. As their distributing facilities increased, they developed a corresponding need for salable securities —or merchandise—so that the affiliates became involved in extensive underwritings. Not all of these underwritings were disinterested. In many cases they were situations where the banks had to be "bailed out".

During the sad days of 1920 and 1921 the banks had been forced into many lines of business which were foreign to their regular experience. By reason of frozen loans to sugar interests the Guaranty Trust Company and National City Bank had come to acquire a commanding position in the sugar industry of Cuba. They held the bag for sugar mills and plantations without number. Likewise the Bankers' Trust Company, The Chatham and Phoenix Bank and Trust Company, and Irving Trust Company and a group of other banks, numbering about thirty all told, were deeply interested in the silk business, as they had loaned a considerable number of millions on silk at $20 per pound which afterwards dropped to $5 per pound. From Boston to San Francisco this condition applied and the banks of larger standing lost no time in cleaning up their "bad" loans through bond and preferred stock issues, which were eagerly taken off their hands by an unsuspecting public. It was the Security Affiliates largely that made this possible.

But in itself this was not enough to keep the affiliates going. They had big overheads and Old Man Overhead had to be satisfied. Moreover, as inflation took form, public acceptance seemed to be boundless and more and more securities had to be ground out to provide for the needs of their own selling organizations. It was a vicious circle. By adopting the chain-store principle of mer-

chandising they developed a demand which required mass production to satisfy and this, in turn, created a supply which called for constantly increasing selling efforts. Industry was scoured for possible financing and competition was responsible for deals which were set up on an unsound, uneconomic basis. The affiliates became veritable security factories.

From the banking standpoint, the banks ceased to function as banks insofar as the operations of their security affiliates went. Accepted banking principles were tossed out of the window. They were merchandising organizations, pure and simple, and high-pressure methods quickly found their way into the "Holy of holies". Bond salesmen were everywhere. If a college boy established an athletic reputation, or otherwise made the right connections during his academic career, he was immediately snapped up by these organizations and after a two or three weeks' period of intensive schooling, was set up as an adviser to the investing public. Then, after being duly impressed with the importance and standing of the organization to which he belonged and sanctimoniously exhorted to avoid high-pressure methods, he was promptly given a quota which could only be met by the liberal use of dynamite in selling. As an example of the pressure that was applied to the personnel of these organizations, consider the following extracts from a "pep" letter that was actually sent out by the security affiliate of a leading Wall Street bank, which boasted of the fact that a member of Washington's cabinet had been one of its founders. The letter is addressed to a branch office manager.*

"I should hate to think that there is any man in our

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* See *Scapegoats,* by Julian Sherrod,

SALES CROWD who would confess to his inability to sell at least some of any issue of either bonds or preferred stock that we think good enough to offer. In fact, this would be an impossible situation and, in the interest of all concerned, one which we could not permit to continue.****

"We sent a long flash (wire) this week on specific issues, including Cuban Dominican Sugar bonds and Willys Overland Preferred Stock.

"I have before me an analysis of individual sales on the issues included in the special premium (commission) arrangement.****

"Mr. A's sales have been $29,700 of these. We are very confident that he can give us better results on these issues.

"Mr. B has not responded on these special issues since we asked for particular attention to them and, in fact, of Willys Overland Preferred Stock has sold only $1,000 and of the Cuban Dominican Sugar none. He can sell these and we ask for his immediate support.

"Please give this question of the character and value of the work being done by the men in your office your most thorough study and be sure that each man is DEFINITELY PROGRESSING. We should like to have your comments on the men in your office at your convenience."

It was such "pep" letters and "pep" talks—better suited to the merchandising of typewriters or cash registers than to so-called investments—coupled with "puff" bulletins, newspaper propaganda and highly-colored statistical reports, that sent sales sky-rocketing and buoyed up the spirits of investors to a point where they lost all sense of balance.

Under these conditions it was no trick, of course, for

the security affiliates of the larger institutions to build up phenomenal sales records. Having access to the bank's list of depositors, they made a practise of seeking out those who maintained substantial balances and seeing that they were duly converted into the securities which the affiliate carried on its shelves and often served to clean up "bad loans" on the bank's books. Going a step further, the bank extended liberal credit to such customers and in this way laid the foundation for the frozen condition of bank loans that came to light when the market broke. Generally such securities were bought by the bank's customers solely on the strength of their faith in the bank, but this consideration had little weight when the bank found it necessary to "call" these loans as the tide of declining values set in. Quickly the erstwhile customer found that he was a customer no longer; he was a debtor. His bank had played him false.

To the operations of these security affiliates and independent investment houses that adopted the chain-store system of security distribution may be traced much of the financial grief that was later translated into the depression of the Thirties. Combined with real estate bond offerings, which were distributed to the public by the same conscienceless methods and with even less regard for actual values, often backed up by the dubious guaranties of insurance companies, they were chiefly responsible for the tremendous volume of liquidation that has had to be absorbed before recovery came into sight.

True it is that the fruits of the Reign of Normalcy did not become apparent until long years after the Harding régime ended with the mysterious death of the lovable president, but that the seeds were sown under his benign eye cannot be gainsaid. It was for another day to reap the whirlwind.

X

WALL STREET WAKES UP

UP TO THE END of the war period speculation in the stock market had been confined largely to professional traders, who were wise in the ways of the Street and pitted their wits against opponents of equal acumen, but the war created a whole new race of speculators. To profiteers of many breeds wealth had come easily and they were willing to risk their gains. It was this element that was largely responsible for the market of 1919, when three-million-share days found their way into the financial news for the second time only since 1901, when the first of such days was recorded in the wild market that grew out of the corner in Northern Pacific.

As transactions on the New York Stock Exchange attained volume after the war, traders throughout the country began to take an interest, but the "smart money" was not deceived. To this class the bulge in stock prices merely signalized the post-war inflation, which was destined to precede the grand smash-up of values that was inevitably to follow on the waste of wealth caused by the war. If they took a hand at all, it was merely for a "quick turn", and it was soon demonstrated that they were right, for the market ran its course in the short space of twelve months and left behind it the usual trail of grief.

To the neophyte Wall Street has always offered a ready means of getting rid of "easy money" and it lived up to its reputation in 1919, but the eagerness with which a war-worn people sought the relief from nervous tension afforded by speculation served only to open the eyes of bankers and brokers to the real possibilities. If three-million-share days were possible, why not five-million-share days, or even ten-million-share days? All that was needed was to pump a little oxygen into the structure. It is true that the lesson of the post-war depression was to be drastic, but, after all, there are other times and other lambs to be shorn.

"A broker is a low wretch, given to dealing in shares," said Dr. Samuel Johnson, and in this instance the "wretch" in question accepted his commissions gratefully and bided his time, while the stage was being set for the big "killing". It was not long delayed. Industrial recovery followed fast on the heels of depression and by 1923 business was "going on as usual". During the earlier stages of this process of readjustment the performance of the market was not phenomenal. Traders had had a lesson but they could not resist the lure of the approaching wave of prosperity, which in due time was to be translated into terms of the "Coolidge Bull Market", and during the latter part of 1923 stocks began to move up. It was heartening. From October, 1923, to January, 1925, the Dow-Jones averages advanced 21 points, or approximately 25%. Transactions on the New York Stock Exchange increased in volume from less than one million shares a day to a peak of 3,349,000 shares in November, 1925. During the latter part of 1923, and again in November, 1925, there were set-backs—not serious ones, but enough to drop the averages 15 points, all told. At the lower levels accumu-

lation set in and it was not long before the Big Bull Market was in full swing.

During all this period business was expanding in many directions. From year to year corporate profits as a whole increased at an average rate of nine per cent. Fed by the growing automobile industry and its allied lines—which occupied four million people all told—employment was increasing and wages were good. It is true that, according to the National Bureau of Economics, this incipient prosperity was restricted to the Middle Atlantic, Eastern, North Central and Pacific states, and everywhere agriculture was a sore spot. But, why bother about that? agreed the broker and his customer alike. The farmer is a chronic sorehead. Likewise, the general average of commodity prices strangely failed to follow the market. Contrary to all precedent, the level was held practically on a line on the charts until close to the end of the "boom" period, when it took a sudden and suspicious drop. But to those who were not disposed to look too closely good times were here again and the future appeared rosy.

As the outlook for business improved and the movement in stock prices developed, it soon became evident that a new element was behind the market. There was a new leadership in industry and this leadership was not averse to backing its judgment with market support. New stocks began to take the lead on the "Big Board" and each had its sponsors and followers. Where in the old days the rails and a few outside stocks, such as U. S. Steel and Consolidated Gas, had set the pace, other issues now came to the fore. In ever-increasing volume new symbols appeared on the ticker—ATT, GM, AC, AAC, GE, WX, Z—American Telephone, General Motors, American Can, Case Threshing Machine, Gen-

eral Electric, Westinghouse, Woolworth, later to be supplemented by Radio, "Monkey-Ward," Columbia Graph, Dupont, Chrysler, Auburn, United Aircraft and a host of other speculative favorites. Back of these stocks were a group of industrialists who had both courage and convictions. The American Can crowd, the Dupont crowd, the General Motors crowd, including such names as Harbeck, Baruch, Raskob and, as time passed, the Fisher brothers, Cutten, Matt Brush, Durant, Percy Rockefeller and Danforth. Little favored in earlier days, the public utilities began to take the spotlight. Columbia Gas and Electric, Pacific Gas, Standard Gas, Brooklyn Union. Came the big utility holding companies—Electric Bond and Share, American and Foreign Power, North American, Central States Electric, Niagara-Hudson, United Gas Improvement, Commonwealth-Southern and United Corporation. The names of Bonbright, Byllesby, Sidney Z. Mitchell and Harrison Williams shot up into prominence. On the Exchange itself Jesse Livermore, (twice bankrupt and to be bankrupted again), Mike Meehan, Ben Smith and Tom Bragg became names to conjure with. Information that could be run back to these sources was accepted as "triple A".

Broadly speaking, the Big Bull Market of the Twenties passed through three stages. The first, starting in 1923 and ending with a sharp reaction during the latter part of 1926, merely laid a foundation. The real market, or secondary stage, got under way immediately thereafter and reached its climax at the end of 1928, when a drastic shake-down in values provided a basis for a final advance. This started in January and carried the averages up perpendicularly until the middle of the year, when a series of reactions gave warning of ap-

proaching trouble. After this, little headway was made before the crash came in October, when within the space of two weeks the averages lost most of the gains registered over the preceding two years. It is with the first stage that we are mainly concerned in this chapter.

During this period the market was more nearly normal than it ever appeared again during the succeeding years. Preceding this there had been a sharp upward movement in prices, occurring chiefly during 1922, which carried the averages up about 40 points and signalized the end of the panic of 1920-1921. This was followed by a reaction of 20 points, which provided a bottom on which the structure of the Big Bull Market was to rest. From this point on there were few recessions of more than minor importance and these merely afforded an opportunity for accumulation. It was not until the end of 1926 that the Federal Reserve policy of maintaining cheap money rates became apparent and then the signal seemed to be passed along the line that all was clear ahead. But not all gave heed. Many wise and experienced traders had become frightened by the action of the market during 1925 and, deciding that the end was near at hand, had withdrawn, thereby shutting themselves out of the big profits that were taken during the next two or three years. By a curious twist of fate, these same wiseacres jumped back into the market immediately after the "big break" in 1929 and took losses during the next year or two that made the losses of the big bull operators seem small by comparison.

But more of that later. During this early stage of the bull market with which we are immediately concerned, there was gradually developing a new economic philosophy and a new market technique. In the days before the war there were certain yardsticks by which to measure

stock values. It was common practise, for example, to place the limit of value at ten times earnings, but this criterion loosened by degrees, until at the peak of the bull market a price of twenty-five, or even forty, times earnings was not uncommon. Just before the final advance started the head of a leading corporation volunteered the opinion that fifteen times earnings was warranted in the case of a large corporation having further possibilities of expansion.

Second only to this dictum was a rule of oscillation, or rhythm, which compelled a major advance to run its course within the space of 20 to 24 months. At the end of this period stocks were a "sale", according to trading practise. At that time the cyclical theory was universally accepted and short swings were not allowed more than two years in which to complete their movement. Everything that goes up must come down, said the trader, until he ran into this unprecedented market which carried on for a period of three years in one of its stages without a major reaction and over its entire course covered a span of seven years. In the face of this fact, opinion gradually swung around to the opposite extreme and as the movement progressed an increasing body of traders leaned toward the view that the market had become permanently established on a "higher plateau", as Professor Irving Fisher, of Yale, put it.

Aside from the time factor, experience had indicated in other times that the maximum limit of advance in the averages was somewhere between 45 and 55 points. Beyond this point lay the danger zone and traders generally turned bearish as it was approached. But more than once during the Big Bull Market the averages climbed 40 points within a single month and again the traders of the old school were confounded. Between

these several reversals of form operators finally reached a state of confusion where all measuring sticks were cast to the winds and they allowed themselves to drift with the tide, which carried stocks to ever-increasing levels.

Back of these changing trading practises lay a new economic philosophy which centred about the thought that the country was entering upon an era of prosperity that was never to end. There was to be a new day in industry and with the new day was to come a permanently higher level of stock values. After 1928 this view received powerful support from the administration of President Hoover, who was personally committed to a program whose ultimate objective was the complete abolishment of poverty. Out of Washington flowed a constant stream of pronouncements from government officials and advisers and even from the President himself, the effect of which was to strengthen this belief immeasurably. To many it seemed that the millennium was at hand.

Before the end of the first phase of the bull market this changing philosophy had begun to lay hold on the public imagination, but the "wise money" had its eyes on another portent—the slowly unfolding process of credit inflation, which was the logical outgrowth of the cheap money policy of the Federal Reserve authorities. Irrespective of rule-of-thumb trading practises or divergent economic philosophies, this policy, if maintained, as it was, could not fail to move stocks up far beyond any levels that had ever been contemplated or even dreamed of.

By the end of 1926 this movement had developed to a point where the averages had advanced 80 points, or almost 100 per cent; volume was running over three

million shares a day and Stock Exchange seats had increased in value several times over.

It is difficult to draw a parallel between the course of business and the course of the market. In a sense they go hand in hand, but the market is subject to technical factors which generally affect its action. Thus, at one time it anticipates business development, favorable or unfavorable; at other times it lags behind, as in 1922 when business was well around the corner before the market began to look up. At all times the market is an uncertain factor, subject to whirlwinds that may at any moment develop cyclonic velocity without apparent cause. It is this, perhaps, that is responsible for its lure, for in this matter-of-fact age there is little room for high adventure and certainly few forms of adventure afford the thrills that the ticker provides.

Before the Big Bull Market had its inception, or at least up to the short-lived movement of 1919, the market was essentially an investors' market, but it is not always easy to draw a line between the investor and the speculator, since in recent years the trend of investment has been toward equities and the holder of equities is always gambling on the future. Perhaps the soundest distinction is to say that the investor seeks income while the speculator looks for higher values. During the early days of the bull market something of a battle was waged between these opposing forces, with the palm of victory finally going to the speculator. Investors who in times gone by had looked upon a return of more than five per cent as inherently dangerous switched over to the ranks of those who demanded nothing less than 100% profits. Not satisfied even with this appreciation, they took to margin trading and so figured to treble or quadruple their capital. In some cases they got out with their

winnings but seldom failed to be lured back again by the advancing market. In the end most of their gains were wiped out, but not before they had been able to draw heavily against their paper profits.

It was these withdrawals, lavishly expended, that laid the foundation of the pseudo-prosperity of the late Twenties. "Easy come, easy go" is an old saying but a true one, and profits made in the market quickly go back into circulation, generally in exchange for luxuries or other non-essentials. As in poker, you spend what you win and lose what you lose and about all that the average operator in the market has to show for his winnings is a higher standard of living. This, in turn, calls for an expanding scale of operations, with the result that the speculator is soon in far over his head.

Over and over again the truth of this was demonstrated during the course of the Big Bull Market, but it is also true that the increasing scale of expenditures worked directly to the advantage of many industries. Automobiles, furs, jewelry, radios, and the electrical contrivances and conveniences that soon flooded the market were in heavy demand and there was a noticeable expansion of business in these lines. Gradually this built up a concept of increasing prosperity, which, however, was not attributed to the excesses of speculators but to improvement in the technique of business. Increasing sales were laid to the achievements of advertising and a new order of salesmanship, rather than to the extravagances of those who had made money in stock speculation, and the mounting volume of production, in turn, called for the application of constantly increasing pressure on selling, so that we ran into a vicious circle to which there was no end. On this basis largely rested the so-called prosperity of the Twenties, which had its be-

ginning back in the first stage of the bull market but did not reach its climax until late in 1929, when prosperity disappeared through one door as stock losses entered through another.

To the man in the street the upward march of stock values during these years seemed a logical and understandable thing. All around were evidences of increasing prosperity, superficial perhaps but none the less convincing. The financial news was filled with stories of business achievement. Chambers of Commerce, Rotary clubs, Lion and Kiwanis clubs, the columns of the daily press, spread the news far and wide. "Captains of Industry" became a familiar term to be applied to a growing number of industrialists whose achievements were constantly emblazoned in the press. In this new order we acquired a new form of veneration for these business leaders. Washed of the sins of a previous generation, they became demi-gods, and their standing in this new era was not entirely unmerited. To a marked extent they were apostles of clean dealing. Unlike business leaders in other times, with few exceptions, they were not given to corporate manipulation for stock market purposes. They did not rig up their balance sheets either for the purpose of elevating or depressing stock prices. Essentially they were administrators and executives. They went out to "bring home the bacon" and they did it. They were not manipulators. As time passed, many of them took a hand in the market, but they did not play the game with marked cards. Their advantage was little more than that of the ordinary trader and almost invariably they bought for the "long pull". They had vision and optimism. They believed in the future of their country and of their industries.

This was the foundation on which the Big Bull Mar-

ket was built. To a large extent these factors originated during the early stages of the movement and made it easy to rear a structure which tended to be weaker and less enduring as it rose. If the market could have been held at the levels that were established in 1926 and 1927 it is quite within the scope of possibility that a permanent new level of values would have been created. But there were other forces at work—mainly those of greed, which were not satisfied until they had wrecked the structure which the new order of business leaders had built during the three or four year period that followed the end of the depression of the Twenties.

XI

A LOCHINVAR COMES OVER-SEAS

IN THE World's Fair year 1893, a chubby-faced Englishman, whose energetic manner belied his soft appearance, made his way to Chicago to become the head of the Chicago Edison Company—Samuel Insull by name. Eleven years before he had landed at Castle Garden and promptly attached himself to Thomas A. Edison as his secretary. Within another thirty years he was to become the builder of an empire of Power owning or controlling some $4,000,000,000 of assets, which he left behind him one night between dusk and dawn, according to the accepted version, later to emerge in European capitals as a hunted man, dogged by representatives of the Federal authorities, who wanted him on charges including fraud, larceny and embezzlement. The story of his rise and fall is both an epic and a tragedy which has had few parallels in financial annals.

How Insull came to find his way into the service of the Wizard of Menlo Park is not of record but he made good use of his opportunity. No less a glutton for work than Edison himself, it is related that on the first day of his employment the inventor kept him hard at work until midnight and then told him to return again at six in the morning. But the young Englishman was equal to the test and morning found him on the job ahead of his

employer. Starting as secretary and clerk, he tended to correspondence, kept books, signed checks, handled the inventor's personal affairs and in time became his Man Friday. Those were the days when Edison was still struggling for recognition and it is evident that Insull served him well, for, as his employer's interests enlarged, he was thrust into places of responsibility, becoming by the time he was thirty a vice-president of the budding Edison General Electric Company, of Schenectady, New York.

Naturally, Insull's association with Edison brought him into favorable notice and it was not long before an opportunity fell his way to become head of the Chicago Edison Company. The story of how this came about is typical. The Chicago company had been struggling along without competent management and the owners finally came to Edison in search of a new head. Edison referred them to Insull, who listened to their story and when they had finished took them off their feet with this laconic advice: "Take me", he stated with finality, "I can do the job better than any man in the country". They did and in short order he was on his way to Chicago.

Insull found Chicago to his liking. The rough and ready, bluff and hearty, open-handed atmosphere of the fast-growing Queen City of the West suited him and his methods were not out of place. Suave and resourceful, he knew how to cajole, how to command, how to threaten and it was said that he was not above other means of persuasion if needed to achieve his ends. In fact, as early as 1926, when Smith and Brennan were engaged in a rough-and-tumble fight for a seat in the U. S. Senate, it was charged that he ladled out almost a quarter of a million dollars to both sides without partiality, in an effort to ensure himself a place on the band

wagon, whichever won. Smith won the election but lost his seat in the Senate when the facts came out under investigation and Insull became the center of a national scandal. But Insull was not always a petitioner for favor. He knew how to demand and his domineering manner early brought him the sobriquet of "Insult" Insull.

In those days the utility business was not all plain sailing in Chicago. The Edison Company was one of a half dozen poorly equipped concerns that were putting on a "knock-down-and-drag-out" fight for the city's electric business. Insull quickly had his own company on its feet. Then one day, differing with his Board of Directors over a matter of policy, he put on his hat, walked across the street and took charge of a rival company, the Commonwealth. Within ten years the new company had absorbed his original concern and Insull sat in the driver's seat.

About this time an obscure genius in the East invented a new form of turbine which revolutionized the generation and transmission of electric power. Quick to see its advantages, Insull was the first to install this turbine and so got the jump on all competitors. In doing this he took a $700,000 gamble, but with this club four years later he was enabled to force his larger competitors into a merger on his own terms.

This event marked the turning point of his career. At last he was on the road to power over Power, and within a few years, by pulling strings here and wires there, he had welded together a group of independent plants in sixteen nearby counties, serving 200 cities and towns and 6,000 square miles of territory, into the first of his great holding companies, Public Service Company of

Northern Illinois, later to become a keystone in the arch of Middle West Utilities.

In the meantime, Insull had put his brother, Martin, through Cornell University, where he was turned out with the degree of Electrical Engineer, after which he busied himself in developing a group of electric light plants and interurban lines in Southern Indiana and Kentucky, which were later to become a part of the Insull System. In more recent times, it may be added, Martin Insull shared the self-imposed exile of his older brother, fighting extradition from a little town in Canada on charges growing out of the Insull collapse.

Came now the dawn of the high-tension power era. Ever on the outlook for economies in production or operation, Insull sensed the wastefulness of maintaining separate plants for the generation of power at every small center and was among the first to preach the development of super-power lines. But he needed a vehicle to co-ordinate the activities of properties which supplied high-tension power to groups of isolated or scattered communities and in 1912 the Middle West Utilities Company was formed for this purpose. Constantly increasing the scope of its operations by merger and consolidation and by the installation of turbine generators that developed up to 100,000 kilowatts per hour or more, this intricate network of companies ultimately reached out and supplied heat, light or transportation to 5,000 communities in thirty-two States, as well as Canada and Mexico. It was a Colossus of Power spreading its tentacles over almost the entire nation where ordinary holding companies seldom bit off more than limited territory. In time it came to supply 1,718,000 customers representing a population of some 10,000,000, employed 32,000 people and had almost

600,000 security holders. Its power lines covered 44,500 miles. Its gas mains 10,600 miles.

As his empire grew, Insull became a power to be reckoned with both in the business and social world of Chicago. It was not long before he came to be recognized as its "foremost citizen" and not even unsavory disclosures of political corruption involving the Power-King which later came to light affected his position. Britisher as he was, he was adopted by Chicago and given a place even more exalted than that of its native son, for Chicago likes to do things in a big way and Insull gave it the biggest thing in the power industry. With its four billions of assets, it was likewise the biggest single industry in Chicago, if not in the whole country. In appreciation Chicago poured its millions into Insull's lap with a prodigal hand. Its banks granted him fabulous loans. Its investors bought his securities without stint or question. Its government gave him anything he asked for, not realizing often that he was the government itself. He was a king in his own right and when disaster came Chicago was quick to blame the debacle not upon Insull and his squandered millions, but upon a conspiracy of Wall Street bankers who were jealous of the growing financial power of LaSalle Street.

With Insull it was always "business first". He had no principles or prejudices, no likes or dislikes, no sympathies or aversions that did not dissolve under that magic formula. In its name he built opera houses and played politics, imported art works and supported boodling politicians, bred fine cattle and subsidized candidates for public office. But he never forgot what he was after. Privileges for his power companies, profitable franchises, favorable ordinances and rate adjust-

ments and, last but not least, more money from the investing public—always more money.

At the height of his power Insull was very much of a lone wolf. He had many subordinates but few advisers. A nabob in his own land, he played no favorites and brooked no opposition. It was not until he had turned seventy that his power was tested and then the challenge came from overseas. In Alfred Loewenstein, the Belgian, Europe boasted of an industrial empire builder who had as much to his credit as Samuel Insull. A pioneer in the rayon industry, he built up enormous interests through the purchase of wartime plants and their conversion into rayon factories. Sensing the growing importance of power as an industrial factor, he used his profits to acquire power properties everywhere until he had assembled a string of 300 companies loosely scattered all over the world. Early during 1928 he turned his attention to America and fixed his eyes on Insull's Commonwealth-Edison, People's Gas and Public Service of Northern Illinois as desirable properties. Possessing vast resources, he set out to buy control in the open market. Then ensued a battle of titans, in which both Loewenstein and Insull stretched their resources to the limit and pushed the market prices of the stocks at issue sky-high. In ten-point leaps the stocks bounded up and in order to meet the challenge Insull drew heavily both on his private resources and on the resources of his other companies. In the final result, the palm of victory rested with Insull, since the battle was ended by Loewenstein's tragic death-leap from an aeroplane, to which he was driven possibly by the strain of his struggle with the American Power-King.

Barely free of this menace and still under the financial strain that it entailed, during the following year Insull

faced another challenge, this time from the astute and ambitious Clevelander, Cyrus S. Eaton. Eaton already had a foothold in the power industry through his control of the United Light and Power Company and, like Loewenstein, he turned his eyes longingly toward Insull's Chicago and Illinois properties. To attack Insull at this point was a blow at the heart, since these properties were not only the keystone of his great system, but were the very ones that he had built up with his own hand.

In preparation for the struggle, Eaton formed a huge investment trust, Continental Shares, Inc., which provided him with a fighting fund of some $150,000,000, mostly contributed by a gullible public. Eaton started to buy late during 1928. Of course, Insull determined to fight and this, as he had learned from bitter experience, took money, so he countered immediately by forming an investment trust of his own—two of them, in fact. First came Insull Utilities Investments, Inc., to which the family holdings were turned over in return for a generous portion of the capital stock. New capital was obtained through offering a 5% debenture carrying rights to buy common stock at $15 per share. By July, 1929, the same common stock was selling at $149 per share. Surprised and elated, Insull formed a second trust, Corporation Securities, Inc., which under shrewd manipulation met with equal success in the market. Within a short while the securities of both trusts were selling at a gross market valuation amounting in round figures to $400,000,000.

In the meantime the battle with Eaton had gone merrily on, but with stock values going through the roof the drain upon both antagonists was terrific. As fast as funds flowed into their respective investment trusts they were poured into the market to take up stocks

of the companies at issue. As these stocks shot up in value under buying pressure the demands upon the rival financiers were correspondingly increased and soon both interests were at their wit's end to find the money needed to carry on their gigantic operations. Of course, the advantage was on Eaton's side all along, since Insull was under the double necessity of protecting his control and at the same time supporting the market on the myriad of Middle West stocks which his trusts held in order to maintain the value of the investment trust stocks which were his main source of new funds. It was a battle between Cleveland and Chicago, backed by the millions of both cities and led on the one hand by an old man who was a newcomer at market manipulation and on the other by a young Napoleon of finance who knew every trick of the trade. Eaton proved the smarter of the two. Sensing the coming break, he drew out of the battle in midsummer and consolidated his position, while he left Insull in possession of the field with the doubtful advantage of standing the gaff from repeated "bear" raids, which increased in intensity as the general market showed signs of weakness.

Came the Big Break and Middle West dropped from over 500 to less than 200. In an effort to bolster up the situation, Insull had declared a ten-for-one split-up in Middle West stock and offered rights at 200, and it became essential to hold the stock above this figure if the public could be expected to take up these rights and so supply him with more millions, the need of which was growing. Drawing on his fast diminishing reserves, he put out a flood of buying orders and on November 4th left his office the apparent victor, in order to attend the opening performance at the $20,000,000 Civic

Opera House, which he had sponsored and largely financed for the benefit of the people of Chicago.

With the market seemingly in hand and the recipient of a great ovation himself, Insull was a proud and happy man that night. But the battle was not yet won. For the wily Eaton was on the sidelines, ready to pounce at the first sign of weakness, as during the months to come he was to do many times, picking up stock at low figures, where the Power-King had paid the top of the market.

Before the year ended Insull's troubles had begun to multiply fast and furiously. His bankers called upon him to support the market on Middle West stock under a stock rigging agreement which has been pronounced grossly illegal. New issues were put out in order to supply more funds and they, in turn, had to be supported. As the year wore on and the knot tightened, Insull turned to friends, associates, employees. He "let them in" on juicy syndicates and distributed dubious underwriting profits. He raised money in New York, London, Paris, Antwerp and Amsterdam—some $60,000,000, all told, from European connections. But even this was not enough. The money poured out faster than it flowed in. There was no bottom to the rat hole.

In those days it is charitable to say that Insull lost his head under constant pressure from Eaton, who was "sniping away" from the sidelines when he was not engaged in open raids. He was driven frantic. According to the government prosecutors he applied the money that came into the treasuries of his companies with scant regard for its source; he shifted assets around like a prestidigitator in a side show; he descended to the level of the shell and pea game. A conservative for forty years, always to be counted on to discourage speculation in his stocks, reputed never to have had a stock broker-

age account, he suddenly became the wildest operator in LaSalle Street and once having embarked on this course there was no turning back until ruin stared him in the face.

The struggle reached its climax in the summer of 1930. By this time Insull was convinced that, in the person of Eaton, he was fighting the embattled money powers of Wall Street. Needless to say, this was far from fact. The truth was that he had met his master, a quick-witted, shifty antagonist, with apparently unlimited resources, who won all the skirmishes and could never be lured into open battle. Eaton had acquired about an 8% interest in Commonwealth-Edison, which was the chief bone of contention, second only to Insull's in size. It gave him a right to participation in control. Backed to the wall, Insull sought a meeting with his foe. It was held in Insull's palatial offices at the top of the Commonwealth-Edison building. A truce was arranged. At the moment Eaton was engaged in another epoch-making struggle, where he stood in Insull's shoes. He was trying to block a merger of the Bethlehem Steel Corporation with Youngstown Sheet and Tube Company, which was his "baby", just as Commonwealth-Edison and Middle West had been to Insull. He needed all the money he could lay his hands on. He was not hard to deal with—but he made a trade that wrote the word "finis" to Insull's career.

As the story goes, the Clevelander made a hurried notation of his holdings and pushed it across the table to Insull. "What will you take for the lot?" the old man snapped back.

The terms of settlement have not yet been aired in public but it is understood in LaSalle Street that Eaton got some $50 per share above cost for 150,000 shares

in the several companies at issue, 75% in cash and the rest in Middle West stock. Insull got back his peace of mind, or so he thought, until he came "to pay the piper."

In order to pay the price Insull went in pawn to the bankers for the last time. He borrowed $110,000,000 and put up securities worth $440,000,000 to secure the loan. An apostle of the New Era, he believed he was safe in taking this step, for was not prosperity "just around the corner?" But whether his course was justified or not, he had no choice. He had to have the money.

Facing the loss of his properties if his loan could not be met, Insull now inaugurated the most spectacular high-pressure security selling campaign of all time. Honeycombing the country with offices and representatives, forcing every employee into service from high officials to elevator boys, organizing a sensational and outrageous campaign of propaganda, he set out to make the investing public take over his burden. His chief stock in trade was a widely advertised charge that the Morgan interests had attempted through Eaton to secure control of his properties. So far as it is possible to ascertain, this charge had no basis in fact, but it was productive on a vast scale. Money poured in by the millions—but in a constantly thinning stream as the depression gained in severity, until the day came when Insull was forced to face the fact that he had reached the end of his rope. It had been a long rope, such as Fate occasionally vouchsafes to those who destroy themselves, and at the end there was a hangman's knot. As long as he could browbeat or wheedle money out of banks or the deluded public, Insull was riding high, but when the well went dry he was through. He had built up a pyramid whose maturing obligations could only be met out of funds

from outside and when the source of such funds dried up it was all over. In the end he came to Wall Street itself and Wall Street unwisely loaned him some needed millions, but when the loans fell due it demanded its pound of flesh. The "first Citizen" of Chicago was merely a beggar in Wall Street.

The final collapse of the House of Insull started with the crash of his investment trusts, whose capital had been recklessly expended in the historic battle with Eaton, followed by the receivership of Middle West Utilities. This happened in June, 1932. He had postponed the evil day for two long years. Sadly, reluctantly, Insull gave up his throne. On a single day, a stranger in his own offices, he signed eighty-five resignations from official connections with the companies which he had dominated in other, happier times. Within another month he was on the high seas, headed for parts unknown, in a hopeless flight to escape the hounds of justice.

This is the personal tragedy of Samuel Insull. Back of it there is a larger tragedy, colossal in scope, a tragedy of lost or stolen millions, blasted hopes and wrecked lives. Altogether it is estimated that as much as $2,000,000,000 vanished in the Insull orgies, leaving a trail of broken, suffering families, crippled banks and wrecked properties.

Gone now is the pride that Chicago took in its Power-King. The kindest word that has been said of him came from one of his lawyers: "Insull's trouble was colossally bad judgment. He accepted the promises of statesmen and other big business men at face value. He overestimated his powers".

In his favor it can be said that, facing disaster, he threw his own fortune into the hopper along with the

public's money—but this is tempered by the fact that in no other way could he have got the public in. It was a measure of desperation.

As this is written, Insull has just been acquitted of the first of the charges brought against him, that of using the United States mails to defraud investors. Whether he will be brought to trial on the remaining charges or whether prison doors will ever close behind the erstwhile Power King remains to be seen, but enough has already been disclosed to indicate the disastrous consequences of his collosal operations as well as the necessity of protecting the investing public from the activities of men of his vast ambition and recklessness.

As a measure of poetic justice, it should be added that Insull's nemesis, Cyrus S. Eaton, fared no better, for he lost his all in the struggle with the Bethlehem Steel crowd and emerged from the battle, like Insull, shorn of wealth, reputation and power.

XII

THE SLIMY TRAIL OF OIL

PRESIDENT COOLIDGE had barely taken up the reins of office when disclosures of grave scandals during the previous administration began to come to light. Despite the halo that surrounded the fine head and dignified person of the "martyred" president, Warren G. Harding, the impression had got abroad that he was in the hands of corrupt and unscrupulous politicians who were feathering their nests at the expense of his good name, and in time these suspicions were amply justified. Finding ready accessories in a group of dominant figures in the oil industry, who were not unknown to Wall Street, they unloosed a series of transactions which shook financial circles when the facts were unearthed. The unearthing was effected by the Senate Committee on Public Lands, whose chairman was the able and distinguished senator from Montana, James J. Walsh, later to be selected as Attorney-General, in President Franklin D. Roosevelt's cabinet, although death claimed him before the appointment took effect.

For years the oil industry had faced decreasing reserves in the known supply of oil land and, as a result, operators had cast envious eyes on vast tracts of oil-bearing Government lands, which had been legally set aside for possible future needs of the U. S. Navy. The

most extensive of these reserves were located at Elk Hills, California, and Teapot Dome, Wyoming, and were estimated to contain upwards of half a billion barrels of oil, all told. These reserves were in considerable danger of being depleted by neighboring wells and there had been a good deal of discussion in the Navy in regard to ways and means of preserving the supply, one group of Navy men arguing for development by the government and another being disposed to lease the lands to private interests, with a view to using only the royalty oil for reserve purposes. The Wilson administration had been in favor of government drilling, but when Albert B. Fall took office as Harding's Secretary of the Interior he quickly changed this program.

Originally the lands were under the control of the Navy Department but at Fall's request they had been transferred to the custody of the Department of the Interior by an executive order issued by the President. Fall was friendly to certain large oil interests; in fact he owed his appointment to them, and apparently he lost no time in taking care of his friends. Without the formality of competitive bidding he leased the Elk Hills Reserve to Edward F. Doheny's Pan-American Company and the Teapot Dome Reserve to Harry F. Sinclair's Mammoth Oil Company. In the course of the transaction, it later transpired that some $260,000 in Liberty bonds, which had been the property of Sinclair, found their way into Fall's safety deposit box, and the Secretary's good friend, Doheny, made him a little "loan" of $100,000, without interest or security.

So much for that. On the face of it, ignoring the fact of Fall's "cut-in", the transaction was regular and legal and the problem of the disposition of the Navy's oil lands appeared to be settled for all time. But, in digging

around, Senator Walsh stumbled upon some bits of evidence that aroused his suspicions and he began to dig deeper, with results that finally led to the enforced absence of a number of leading oil men and a year's term in the penitentiary for Secretary Fall, not to mention the resignation of at least two of the shining lights of the Harding cabinet—Secretary of the Navy Denby and Attorney-General Daugherty.

The full facts were long in coming to public notice—something over eight years, to be exact. From the first the investigation met with opposition, not only from the Coolidge (Republican) administration, but from business in general, which was in a mood not to be disturbed. It was willing to forget the past in exchange for a free hand in the present. But the facts would not down. One by one, under the searching inquiry of Senator Walsh, they leaked out, and in the last analysis provided a background for what was undoubtedly the most shameless and corrupt chapter in our political history.

Briefly, this is what was disclosed, partly through the Senate inquiry and partly in the course of testimony in court—It was not only a record of political bribery but of corporate double-dealing and violation of trust which opened the eyes of the public to the possibilities of personal profit inherent in irresponsible corporate management.

We begin with the Doheny transaction. When Secretary Fall assumed office he was decidedly "hard up". In fact, he appeared to have difficulty in digging up carfare to get to Washington, when suddenly he blossomed forth with a bundle of hundred-dollar bills, which he handed out as carelessly as if they were street car tokens. Hearing of this sudden affluence and suspecting some connection with the Doheny lease, Senator Walsh acted

on a "hunch" and asked the Secretary for an explanation.

Apparently caught off his guard, Fall invented a "cock-and-bull" story to the effect that he had obtained a loan of $100,000 from Edward B. McLean, owner of the "Washington Post" and a staunch supporter of all Republican administrations. Senator Walsh was not satisfied with this explanation. He sent for McLean, who was at Palm Beach, but McLean reported that he was unable to return to Washington to testify. So Walsh went to Palm Beach, where he pried out of McLean an admission that he had loaned Fall the $100,000, but it had been in the form of three checks, which the meticulous secretary had returned unused. Obviously this did not explain the little matter of the hundred-dollar bills and Fall was obliged to invent another story, which he promptly did.

This time he stated that he had obtained the money from Doheny, and backed up his story with testimony from Doheny himself to the effect that it was a loan made "to accommodate an old friend". Of course, the fact that the loan coincided with the lease of Elk Hills had nothing to do with the matter, the administration's defenders argued, but some scepticism was aroused by the disclosure that the money had been paid in cash, all in new hundred-dollar bills, which, as it later developed had been carried from New York to Washington in a satchel by Doheny's son-in-law. On the stand Doheny asserted that Fall had given his note in evidence of the obligation but when pressed to produce the note he displayed a strange ignorance as to its whereabouts. In the end the alleged document turned up in the possession of Mrs. Doheny, or what was left of it, for the note had been torn in half and the part containing the signature

was missing. Notwithstanding these spurious explanations, neither Fall's protestations nor Doheny's unctuous self-justification availed, for when the facts finally got before a jury the erstwhile Secretary was convicted. After a long legal fight to escape imprisonment, coupled with tearful pleas for mercy on account of the impairment of his health, Fall went to prison eight years after the happenings in question.

The second item in the list of crimes committed in the name of "Black Gold" savored more of the machinations of Big Business, although it also contained some elements of comedy. It all started with a friendly meeting of a group of influential and respected oil men in New York, including Col. E. A. Humphreys, owner of the prolific Mexia oil field; Harry M. Blackmer, of the Mid-West Oil Company; James E. O'Neil, of the Prairie Oil Company; Col. Robert W. Stewart, Chairman of the Board of the Standard Oil Company of Indiana (who was to lose his job as a result of this innocent-looking affair); and Harry F. Sinclair, president of the Sinclair Consolidated Oil Company. At this meeting, which occurred only a few months before the Teapot Dome lease, plans were laid for the formation of a corporation—the Continental Trading Corporation, later proved to be a dummy—which first agreed to purchase from Colonel Humphreys 33,333,333 barrels of oil at $1.50 per barrel and then in turn contracted to sell the same oil to Sinclair and O'Neil's companies at $1.75 per barrel, thereby netting a neat little profit of 25c per barrel, or approximately $8,000,000 on the whole transaction.

Needless to say, the "influential and respected" oil men who rigged up this raid on their companies' treasuries constituted the dummy company and subsequently

drew down from $750,000 to $800,000 apiece, which, in some cases, they omitted to report to their companies over a period of years. According to his counsel Blackmer had not reported the transaction as late as 1928, though the profit was divided up in 1921. O'Neil turned over his share in 1925. Stewart handed his share to an employee of his company but failed to notify his directors until 1928, when the facts began to come out. Sinclair likewise waited until 1928 before giving up his share, or what was left of it after disposing of a portion in the manner related below.

As it happened, the profits in question were distributed in the form of Liberty bonds and, strange to relate, a quarter of a million or more, which had originally gone to Sinclair, later turned up in the possession of Secretary Fall, as well as in other queer places, including the treasure chest of the Republican National Committee.

The facts related above were not easy to get at. They were dragged out of reluctant witnesses, in the face of much twisting and turning, and incidentally led to very extended vacations on the part of Blackmer, O'Neil and Stewart, who found the climate of Southern France and South America quite congenial while the trail was hot. Likewise, they led to sudden and rather drastic changes in the management of the Standard Oil Company of Indiana, when the Rockefeller interests were taken overnight with an acute attack of conscience and forced the resignation of Col. Stewart. Sinclair, like Doheny, was acquitted after trial, possibly due in part to the absence of his colleagues, but he served a thirty-day sentence in jail for contempt of court and has escaped none of the moral obloquy which all those who participated in this dubious transaction richly deserved.

As a humorous sidelight on this tragic affair, Archie Roosevelt, son of the immortal Teddy (and brother of Harding's Assistant-Secretary of War) appeared as a voluntary witness and asserted that Sinclair's confidential secretary had informed him that Sinclair had paid "sixty-eight thousand" dollars to the manager of Fall's ranch in New Mexico, but when the secretary was called to the stand it appeared merely that Archie was a bit hard of hearing and what he actually heard, according to the secretary, was that Sinclair had sent over "six or eight cows"—a slip of hearing that is easy to understand—"sixty eight thous" for "six or eight cows". On further inquiry it developed that the cows in question turned out to be a horse, six hogs, a bull and six heifers!

Possibly the strangest and most significant development of this epoch-making investigation was the acute silence that it engendered on the part of all supporters of, or participants in, the administration. In the person of the then President, Calvin Coolidge, this was to be expected, since he had earned a well-deserved reputation for silence on all occasions, but it came with less grace from other members of the dominant party, including the noted Secretary of the Treasury—who had been "ballyhooed" far and wide as the "greatest Secretary since Alexander Hamilton"—Andrew Mellon. In fact, Mr. Mellon—or "Andy", as he came to be dubbed at this time—was very close to being tarred with the same stick that besmirched Mr. Fall. In tracing the devious course of the Liberty bonds which had come out of the Teapot Dome transaction, $50,000 worth were followed into the possession of Will H. Hays, the Chairman of the Republican National Committee. Hays stated that he had obtained them from John T. Pratt—then conveniently dead—and Pratt's cashier dug out of the

musty records of the Pratt estate a card on which Mr. Pratt had made a record of the disposal of the bonds. He also had added a pencilled notation, which merely included these words:

$50,000
Andy-Weeks
Dupont
Butler

Senator Walsh was particularly impressed by the name which began with the first letter of the alphabet, but the cashier—who was also loyal to the Republican party—insisted that it was "Candy", not "Andy", and when it was ascertained, with the aid of a magnifying glass, that he was wrong he stated blandly, "I have no idea who 'Andy' can be. I can think of no one known as 'Andy' ".

Naturally everyone else but the secretary knew who "Andy" must be and there were many "wise-cracks", but the public saw nothing sinister, despite the fact that Mr. Mellon later admitted the identity of "Andy" and explained the real significance of the transaction. In order to cover up the source from which the Sinclair bonds came, it appeared that the astute Mr. Hays sent them around in blocks of $50,000 or so to financial supporters of the Republican regime and asked for their checks in return, which were duly entered as "contributions", and so the National Committee realized on Mr. Sinclair's apparent generosity without involving the party. That is, until the real facts came out, for when the details were spread upon the records it was difficult to escape the conclusion that Mr. Sinclair had turned in the bonds as part of the "quid pro quo" arrangement that brought him Teapot Dome.

In passing it should be stated that "Andy" was smart enough to refuse to accept his share of the bonds and so kept his skirts clean. What Weeks, Butler and Dupont did with theirs has never come to light.

But in the long run these corrupt and spurious deals that both Sinclair and Doheny pulled off did them little good, for the courts voided both leases and the oil lands went back into government control, where they should have remained in the first place. In the process it may be added that soon after these events the Rockefeller interests so far recovered from the attack of conscience which they had vented on Col. Stewart as to enter into a partnership deal with the equally-besmirched Sinclair involving the acquisition and operation of the Prairie Gas and Oil Company, thereby indicating that business, like politics, makes strange bed-fellows and the prospect of a few millions of profit is a mighty good poultice for a seared conscience.

XIII

THE RAPE OF THE FEDERAL RESERVE

DISCONCERTING as these early aberrations of Big Business appeared, events of far greater import were shaping up beneath the surface. As the practical business administrations of the post-Wilson era got their hands on affairs it began to be increasingly evident that a new inflationary movement was taking form. Whether this was due to the ineptitude of the political powers or to a deep-laid plot on the part of Wall Street cannot be definitely stated, but the evidence justifies more than a suspicion that both factors entered into the course of events.

Deflation inevitably plays into the hands of bankers and inflation is an essential precedent of deflation. As a part of the cyclical process of panic and prosperity which has obtained in this country for a hundred years or more these phenomena follow each other with unfailing regularity. Periodically the pendulum swings forward and just as regularly it swings back again. In times of depression many choice plums fall into the hands of banking or other moneyed interests. In such times the foundations of great fortunes are laid by those who are shrewd or far-seeing enough to take advantage of those who are less fortunate or less equipped with foresight or financial resources. It was under such

conditions that Rockefeller was enabled to gather in the units that entered into the Standard Oil Company and, at a later day, following the depression of the Nineties, J. P. Morgan brought about the reorganization of the railroad system of the country with enormous profit to himself and his associates. And so it has become axiomatic that the banker profits by the distress of the community as a whole and if he can anticipate or control the swing of the pendulum his position is one of great advantage.

Under the existing order the key to inflation is credit and in this country the key to credit is the Federal Reserve System. Since the changes in our banking laws which were occasioned by the Federal Reserve Act of 1913, there had been a continual struggle for control of the Federal Reserve System between the Wall Street element and out-of-town banking interests. Led by Benjamin Strong, of the Bankers Trust Company, and with the active support of the Morgan interests, a determined effort had been put forth, even prior to the adoption of the act, to divert the control of the System to Wall Street. Reviving the central bank idea, they had argued for a central institution which was to control the flow and direction of credit, with the system as a whole under the control of bankers rather than the government. This effort had failed. Instead the act set up a group of twelve regional banks, which functioned independently in their respective territories and offered some assurance of an adequate distribution of credit facilities. In order to afford elasticity the act provided for rediscounting commercial paper held by member banks at the regional banks, but it also included a provision that enabled the management of the System to buy or sell government securities, thereby releasing or withdrawing funds from

circulation in such amounts as the System saw fit. This was stated to be an emergency provision and resort to it was not contemplated in ordinary times.

For twelve years the Federal Reserve System had been under the direction of W. P. G. Harding—no relation of the President—who served as Governor, a clear-headed, conservative banker of the old school, and the System had functioned with remarkable efficiency, but Harding held aloof from Wall Street influences. With the exception of the consequences of the low rediscount rate maintained during the first two post-war years—which, however, was beyond control of the directors of the System, as it had been decreed by the Treasury—the Reserve System had withstood the effects of both inflation and deflation and had amply justified its existence. But the Governor was not a member of the President's party nor subservient to control by the Harding administration and accordingly at the end of his term of office his reappointment was not confirmed. In his place the President nominated the then Comptroller of the Currency, D. R. Crissinger, a country banker from Harding's home town, Marion, Ohio. Apparently this appointment was merely another gesture in evidence of Harding's willingness to do something for "one of the boys" but it had effects of real consequence, for by no stretch of the imagination could the new governor of the System be considered as equal to the task of directing the greatest credit institution in the world, whatever his other virtues may have been. As vice-governor the President also had appointed an up-state New York editor and politician who had had no banking experience and the effects were not long in making themselves felt. From the first the new management fell entirely under the influence of the Wall Street

element, which was represented by the same Benjamin Strong who had led the effort to defeat the Federal Reserve Act prior to its adoption. Notwithstanding the emergency character of the provision of the act permitting the purchase and sale of government securities, it was not long before the System through the New York bank was making such investments in large amounts, thus releasing volumes of additional credit and building up the process of inflation that culminated in the crash of 1929.

This process had its inception back in 1924 but it did not come into full play until 1927, when the Wall Street interests had entered upon the vast program of foreign and domestic financing which was made necessary by the engines of distribution that had been set up by the big banks through their security affiliates. From this point on the Federal Reserve System was dominated by the New York Reserve Bank and for all practical purposes was merely an adjunct of Wall Street.

In tracing the course of events it is not necessary to impugn the motives of those individuals, bankers or politicians, who were responsible. Doubtless they were guided by the principles of their kind. Doubtless, too, they were affected by the world delusion that led to a universal recourse to monetary or credit inflation as a panacea for the ills of mankind; but, whatever their state of mind, the results were the same as if they had set out deliberately to wreck the economic system. In Washington participation in the inflation movement may be fairly attributed to gross ignorance. Unfortunately our political system does not foster the development of broad-gauged leaders and during the years after the war the nation was cursed with a particularly inept and obtuse leadership—mere machine politicians in

most cases, who were interested only in jobs and in the continuation of an appearance of prosperity during their term in office or party dominance. On the other hand, in Wall Street there was a gross misconception both of national and of world conditions, which was aggravated by the influence of foreign bankers. Wall Street was international-minded and could see no hope for the world or profit for itself save through a distribution of our stock of gold or the credit that it made possible through international channels. To effect this purpose, however, required the subservience of the Federal Reserve System, and this was readily obtained through the underground connections that ran between Wall Street and Washington, when W. P. G. Harding was ousted from the governorship and a more pliable creature substituted in his place. From this point on the situation was in the hands of the bankers and they proceeded to carry out their policies of world rehabilitation without regard to consequences so far as this nation was concerned.

At the end of the World War more than half the world's gold supply was held in the vaults of our treasury or of the Federal Reserve System and America was in a position to take the place of England as the chief creditor nation of the world. Looking a little further ahead than our own newly made group of bankers, England was not averse to resigning in our favor. She had other "fish to fry". Facing a debt of some six billion dollars to this country, with no assurance of adjustment and little hope of help from her own debtors, she could ill afford to divert her remaining resources to world recovery. Likewise she recognized better than we did the general insecurity of the foreign situation and feared to risk her diminishing reserves in financing an effort to bring about world recovery, the outcome of which

was doubtful at the best. Where England had doubts and fears our bankers had none and they rushed headlong into the foreign markets with proffers of financing that ultimately attained a total of $8,000,000,000 in bond issues and another half billion or so in bank credits of one sort or another.

In order to prepare the way for this enormous draft on our resources, the credit structure was rapidly expanded through the joint device of maintaining a low rediscount rate on the one hand and on the other by continuous purchases of government securities by the Federal Reserve System, which represented inflation just as really as, if less perceptibly than, the issuance of fiat money. The printing presses were not called upon but the same result was obtained by inflating the credit structure.

Concurrently with this increase in credit resources and resulting naturally from the unlimited supply of cheap money, domestic financing expanded on a similar scale and in the absence of a demand for commercial loans, which the state of business did not call for, the banks became loaded up with security loans, first to finance new flotations and subsequently to enable the investing public to carry their purchases of such securities. Following the example of the big banks, which adopted a more than liberal policy of loans against the flotations of their security affiliates, smaller banks let down the bars on the same class of loans and soon found them the leading item in their portfolios. As a result, from 1924 to 1929 bank loans increased a full ten billion dollars. Since there was no increase in commercial loans during this period, it follows that the entire increase went into the speculative markets or into carrying security or real estate flotations. In other words, it

became the rule for investors to invest, not savings or accumulated capital, but borrowings which they hoped to liquidate out of future earnings or appreciation in values. The consequences were not fully apparent until deflation set in and the banks were forced to liquidate this enormous volume of collateral on a falling market.

In the face of these facts it is difficult to escape the conclusion that the most active agent in bringing about the depression of the Thirties was the enormous and over-rapid expansion of bank credit, which was effected with the aid of the Federal Reserve authorities at the instigation of Wall Street bankers.

We have referred to the delusions of the post-war era. If the whole world had been suddenly afflicted with *dementia praecox* it could not have been madder than it became during the eight-year period that led up to the crash of 1929. It was as if the foundations of reason had been swept away and delusion reigned instead. The world was a madhouse.

Undoubtedly this state of mind had its roots back in the war, which was itself a product of delusion—a delusion of grandeur that affected the German people with paranoiac impulses and caused them to seek a "place in the sun" which was beyond their just deserts. Spreading through the embattled world, this delirium was fed by the fires of hatred and propaganda, making possible the wildest charges and counter charges and laying the foundations of a peace that was not to be peace.

After the war this delusion came to be chiefly one of inflation. Having developed the expedient of stretching currencies to unprecedented lengths in the course of financing the war, the world turned to rubber marks, rubber francs and liras and, last of all, to rubber dollars

—as evidenced by the inflation of our own credit structure—in a vain effort to rebuild itself. This delusion was more than a delusion; it became a mania which upset the point of view of the whole financial world and in America found ready acceptance among the race of international bankers that were hatched during the post-war period. Recovery was to be found not by way of liquidation and the ordinary processes of rebuilding but by way of inflation. That was the magic formula.

Fortified by war profits, as America was, we were late in feeling the consequences of this universal state of mind. We had a taste of it during the two post-war years that ended with the depression of the early Twenties, but recovery came quickly and we did not attribute the excesses of those years to the delusion that affected the rest of the world. In fact, we looked upon ourselves as a race apart who were to be spared the consequences of the peace as we had been spared the ravages of the war.

The inflation of currencies that shook the European economic system to its foundation occasioned in us merely a shudder, though it led to staggering losses through speculation in German marks. Altogether it is estimated that we handed the German people more than a billion dollars in gold in exchange for their worthless paper currencies, subsequently repudiated. But this was a mere incident of the post-war process of adjustment. We took our losses calmly as we set out to build up a prosperity of our own, which, by a strange process of reasoning, we established on a similar basis of inflation. Unquestionably the virus had affected us and it found eager devotees both in Washington and in Wall Street, but in banking circles at least there is little room to believe that the process was wholly one of delusion. It is difficult to believe that the Morgans, Bakers, Schiffs

and other financial leaders of long experience both in Wall Street and in the money markets of the world were ignorant of the consequences that were sure to follow such unbridled inflation as came to be forced upon the country during the Twenties and was maintained for seven long years without protest from the big banking interests. In private it is possible that they expressed their doubts as to the soundness of such a course, but it was not until late in 1928, when Mellon hesitatingly put forth the suggestion that perhaps "the time had come to buy bonds", that any responsible financial leader even intimated in public that all was not right with the financial structure.* Mellon's timid warning, it may be mentioned in passing, was largely set at naught by the previously expressed confidence of President Coolidge in the new order. No less than Wall Street Washington was anxious not to "upset the applecart", and so the wheel was kept spinning at ever-increasing speed until catastrophe arrived.

If one takes a look at the record—as Al Smith would say—it is not difficult to trace the course of inflation in the successive acts of the Federal Reserve authorities. To start with the rediscount rate: Dating from 1922, as the indices pointed to the end of the post-war depression, the rate was dropped in a series of sharp reductions from 7% to 3½%. In itself this action was

* A notable exception should be made in the case of Paul M. Warburg, head of the International Acceptance Bank. Repeatedly he issued warnings which, however, were largely unheeded both in the Street and in the public press. Despite this evidence of clearsightedness, it is to be recorded that during the early stages of the depression Mr. Warburg succumbed to the widespread belief that we had "turned the corner" long before the crisis had reached its full depth.

not unsound as a means of hastening recovery, provided there had been in the minds of the Board a purpose to restrain the undue expansion of credit. But apparently no such purpose existed, for the rate was never allowed to exceed this point by more than half of one per cent (or a maximum of 4%) during the next five years, and this in the face of growing speculation which carried with it an increase of two billion dollars in broker's loans while stock prices were practically doubled.

During the spring of 1928 the authorities affected to see a light and the rate was hesitatingly advanced in two separate raises to 5%, but this half-hearted measure was of no avail for by this time the Wall Street crowd had taken the bit in their teeth and were running wild. A 7% per cent rate might have saved the situation, although it might also have slowed up the pace of the so-called Coolidge prosperity and certainly would have cut down the enthusiasm of speculators and the profits of the security factories in the Street, but an increase of only one per cent in the rate had no effect on the course of events. By this time the Dow-Jones averages stood at 214, or more than three times the averages at the beginning of the movement, and brokers' loans amounted to $4,150,000,000. By the middle of the following year the averages had gone up another 140 points, to 4½ times their original figures, and brokers' loans reached the staggering total of $7,474,000,000—but the rediscount rate still held at 5%. Evidently the Federal Reserve authorities had either thrown up their hands in despair or had meekly accepted the dictation of Wall Street.

In banking circles some effort had been made to controvert these facts by setting up the argument that stock prices do not necessarily follow the money rate, and,

academically speaking, there is some merit to this contention. In such a complex organism as the financial structure of our security markets it is possible that no single factor controls the course of events; but it has been amply demonstrated that the psychological effect of tightening money invariably dampens the ardor of speculators and ultimately leads to a correction in the market and there is little doubt that a drastic increase in the rediscount rate during the early part of 1928 would have been effective.

But when the powers-that-be finally committed themselves to a sustained inflation movement, as they did about the middle of 1927, they left nothing to chance. Uncertain perhaps as to the effectiveness of a low rediscount rate, they decided at the same time to call upon the emergency powers of the Federal Reserve System to buy government securities. Certain it is that there was no emergency that called for further inflation, but the bankers' and pool operators' shelves were loaded with securities awaiting distribution and they dared not risk a cessation of the forward movement. In order to avoid this danger they forced the Federal Reserve System to buy governments, as it was permitted to do under the Act of 1913, to the extent of $300,000,000, thereby throwing into the laps of member banks an equivalent sum to be used as a basis for additional credit. At the traditional ratio of ten to one this added roughly $3,000,000,000 to the credit structure, which was already swollen beyond the danger point. As the effects of these measures made themselves felt early in 1928 through further sensational advances in the market, the Board reversed itself in a belated effort to stem the tide of speculation and sold its governments; but this action came too late, for the momentum which the mar-

ket had already acquired was sufficient to carry stock prices up for another year and a half and when correction came it was correspondingly drastic.

As we review the events of these epoch-making years it is evident that the activities of the Federal Reserve authorities were no more expert than they were wise in principle. They miscalculated wherever there was room for error and in the end created a Frankenstein monster of inflation which was responsible only for loss and ruin. But one thing is plain. When the New York bank came into control of the credit structure, as it did through the System's open-market operations, which are dominated by this bank, it assumed the functions of a central bank. For all practical purposes the battle that was lost in Washington in 1913 was won in New York in 1927. Once again Wall Street controlled the nation's credit.

XIV

THE STOCK MARKET BECOMES A RACKET

AS A WHOLE Wall Street is not crooked, but, in the days of its effulgence, it had its full share of rackets and perhaps the greatest of these was the Stock Exchange itself. Unlike the illicit liquor traffic of Prohibition days, the Stock Exchange is not organized along approved Capone lines. A trading mart in the guise of a gentlemen's club, it puts on plenty of "front". In fact it reaches right up into the seats of the mighty, for as this is written it is headed by Richard Whitney, brother of a partner in J. P. Morgan and Company. Staunch defender and apologist for the Exchange, from short selling to pool manipulation, Whitney can see no evil in the Stock Market. In the face of public criticism, congressional investigations and what-not, he is equally adamant. Like the Queen the Stock Exchange can do no wrong, in his eyes, and annually he releases a flood of propaganda in support of this contention.

In justice to Mr. Whitney and his fellows it is only fair to admit that the Stock Exchange has a legitimate place as a market for securities but in all truth it is to be added that this useful function has been consistently subordinated to that of providing a field for unbridled speculation. It has been a gambler's paradise. Since Alexander Hamilton's day, when the first "bull" market

originated in wild trading in government scrip and ended in a crash that shook the Continental world to its foundations, the course of the Stock Market has been one long succession of speculative orgies followed by panics in which the gullible public has been shaken down for the benefit of insiders. If a racket is a form of organized plunder then the Stock Market is a racket in the full sense of the term.

Wall Street is quick to resent such reflections on its good name and it has many defenders among the elect, but there is no gainsaying the fact that the Stock Market fattens on the victims of speculation and loses no opportunity to foster a condition where speculation is rife. As a matter of plain fact, it is only under such conditions that Wall Street is "in the money", for brokers' and bankers' profits depend on volume and there is volume only in an active market. When one considers that there are only 1,375 members of the New York Stock Exchange and a million-and-a-half-share day—which is better than average for a bad market—figures out at only about a thousand shares for each member firm, or perhaps a matter of $100 in gross commissions, it will be recognized that Wall Street cannot exist on a slow market. It is a known fact that there are houses in the Street whose overhead is so large (or at least it was during "boom" times) that it costs them upwards of $25,000 to open their doors each day, and hence there is constant pressure to whip up speculative enthusiasm with the aid of pool manipulation, propaganda, so-called inside information and all the other familiar devices that serve to whet the public appetite for what Wall Street has to offer.

During the days before the crash propaganda was probably the main cog in the stock market machine.

"I've got it straight from so-and-so that the National City crowd are behind a merger of Columbia and Victor and they are going to put the price of Columbia up to 40 as a part of the deal". Or "I hear that Chase is behind Fox Film now. They are going to put the stock up 20 points." It was this sort of vague and misleading information, made up of half truths where it was not wholly false that drew the public into the bull market in over-increasing numbers. Call these deluded victims fools, if you will; say that they got just what they deserved, but don't forget that their false enthusiasm grew out of information, or misinformation, that originated in high places.

Big operators in the Stock Market like to draw a line between themselves and the "small fry". Sneeringly they are wont to dismiss the little fellow with such a term of contempt as "sucker", while they take credit for having determined by study and analysis the action of great forces at work or for having, at vast effort or expense, built up connections or sources of "information" that are infallible. In other words, they admit that they play the game with marked cards and yet affect to set themselves up on a pedestal in contrast to the little fellow who takes an honest gambling chance. And yet how many among the thousands who perfected these avenues of information or put in these hours burning the midnight oil over their charts and statistics got out of the bull market with their profits? Practically none. They were "suckers" like the rest. They were victims of propaganda just one step removed from the man in the street, for their infallible sources of information were also playing a game and while they generously let their friends in at the start they seldom told them to get out until the party was over.

In banking circles it is a favorite form of self-defense to blame the excesses of the Big Bull Market on "public hysteria". But who sowed the seeds of this so-called hysteria and who built it up into a national delusion? Was it not the same self-appointed custodians of public confidence who profited most by the wave of hysteria?

Without question the biggest racket that flourished during "boom" times was the propaganda racket. It permeated the whole structure of the Street. It dealt in misinformation and its instruments extended all the way from customers' men to tipster sheets and paid publicity promoters. In between lay the market letter writer, the radio counsellor, the investment counsel himself, newspaper financial writers, statistical services, financial magazines, bank bulletins, and the whisperers and prophets of the Street, whose name was legion.

What tales were circulated under the authority of big brokerage houses about such stocks as Radio, International Telephone and Telegraph, Montgomery-Ward, United Aircraft, Case Threshing Machine, Niagara-Hudson, Electric Bond and Share and American and Foreign Power? Read the market letters that were put out before the Big Break. Sandwiched in between sanctimonious words of caution and conservatism you find a never-ending propaganda for mounting prices based upon a new level of stock values, which was a level only in so far as the bottom was concerned. On the upside there was to be no limit. In the face of all previous experience there was to be no top to this market.

Did any responsible house put out such information as this: "It is evident that the market is now undergoing a process of inflation which has had no parallel in all financial history. From this condition there can be only one outcome—collapse, complete and terrible, which

will wipe out paper profits and reduce stock values to a mere fraction of present averages. Investors and speculators alike will be well advised to get out of this market and STAY OUT".

Not so long as brokerage houses were dependent on commissions for their bread and butter or participated in the pool operations with which the market was honeycombed.

Undoubtedly a prime factor in bringing about the state of hysteria with which the public was infected during these ebullient times were these self-same pools. A pool is a joint operation undertaken by a group of individuals, usually with the aid of brokerage houses (whose customers provide fuel for the movement), the object of which may be either to raise or to depress prices in a given stock. The pool buys and sells, trusting that the balance will be on the right side and generally trying to avoid disclosure of its objects by secrecy or misleading actions. Its chief object is "distribution" which is another term for unloading on the public. In order to accomplish this result it calls upon all the known devices for influencing the market but its main reliance is on the rumor factories and publicity promoters which infest the Street.

Typical of such operations was the Sinclair-Cutten pool in Consolidated Oil which was carried through during the latter part of 1928. As his contribution to the pool, according to the testimony submitted before the Senate Banking and Currency Committee, Harry F. Sinclair caused to be sold to his friend, A. W. Cutten, of Chicago Wheat-pit fame, 1,130,000 shares of Consolidated Common at \$30 per share in the face of a market ranging from 32 to 35⅞ at the time. Cutten paid no money. He simply obligated himself to take

the stock at 2 to 5⅞ points under the market and promptly shifted his burden to a syndicate consisting of Blair and Company, Chase Securities Corporation, the privately-owned Shermar Corporation of Mr. Wiggin (head of the Chase National Bank), Mr. Sinclair and himself. A trading group was then formed to buy and sell the shares with the ultimate object of passing the stock along to the public at as high a price as the public would stand. The trading account was managed by a partner of E. F. Hutton and Company, highly touted members of the New York Stock Exchange. With the aid of the large following of this respected house the deal was handled efficiently and expeditiously and before the end of the year the public owned the stock and Cutten, Sinclair and their associates pocketed a profit of $12,602,169.41. As a part of the operation they did not put up a dollar.

In the course of the hearings before the Senate Banking and Currency Committee the question of "wash", or matched, sales came up on more than one occasion. Tabooed as they are, both by statute and by Stock Exchange regulations, "wash" sales (in which a sale is matched by a purchase of the same amount) were not infrequently employed by operators in manipulating markets. Whenever a pool operation comes under scrutiny this piece of trickery, seems to bob up, as in the case of the Manhattan Electrical Supply pool, where a pair of irresponsible operators took a worthless stock and ran it up from a low of 19 (where it was undoubtedly over-priced) to 55 at which it was greedily absorbed by a deluded public. As a blind to cover up the real nature of the operation the pool manipulators maintained fourteen separate brokerage accounts, which were used so recklessly for the purpose of matching sales that the

record submitted in court resulted in the prompt conviction of both principals.

A. W. Cutten, the Chicago wheat plunger, who had a hand in the Sinclair-Consolidated deal figured in many pool operations during the later stages of the pre-crash era, but none was more flagrant than the Kolster Radio pool. As appears from the testimony submitted to the Senate Banking and Currency Committee, Kolster Radio was controlled by Rudolph Spreckles, the Sugar magnate, and a group of associates. In 1928 the company was in a bad way. Earnings amounted only to 20 cents per share and possibly that was padded. Spreckles and his friends decided that the time had come to get out, so they called in a well-known pool manipulator and rigged up a deal, as a part of which Cutten, L. P. Fisher, of the Fisher brothers, and E. F. Hutton and Company (who had also figured in the Sinclair-Consolidated deal) were generously let in. Then the Spreckles crowd optioned to the pool 250,000 shares of Kolster Radio stock at prices ranging from \$70 to \$84 per share and the manipulators set to work. As a first step they "cut in" a Wall Street publicity man for a block of stock and immediately the Street began to buzz with rumors. According to these reports the company had developed a new "short wave" transmission system which promised to revolutionize the industry; also a new talking motion picture and a new aircraft beacon. (The publicity man was taking no chances; he was claiming everything in sight.) Finally it was reported that a merger was under way and that the company had new business in sight to the amount of \$36,000,000. None of these rumors materialized but the public bit and a suspicious activity in the stock developed quickly. Volume mounted from day to day until within a period of six weeks the pool

had sold 456,900 shares and bought back only 206,900 shares, thus unloading the exact amount optioned from the Spreckles group—namely, 250,000 shares. In the process the insiders sold their stock to the public for $19,200,000, not to mention some four or five millions in profits taken down by the pool operators. A little over a year later the company passed into the hands of receivers, the assets were sold at public sale and the stock was entirely wiped out.

As a sidelight on this interesting affair, the publicity promoter who paved the way for the market operation admitted in his testimony before the Committee that he had received a "call" on 15,000 shares in compensation for his services and had taken down 7,000 shares at 84 and 5,000 shares at 85, which had been unloaded at 90⅛, netting him a profit of $26,414.87. He also stated that he disposed of the balance of this "option" stock at a profit that brought his total compensation up to $40,000.

But this was "small potatoes" when compared with such a gigantic operation as the Anaconda pool, which involved 1,750,000 shares of stock and resulted in a loss of more than $150,000,000 to investors. Throughout the record of this complicated and disastrous operation winds the trail of Charles E. Mitchell and the National City Bank which sponsored the deal in its later stages. The story has its beginnings some years before the Big Bull Market approached its peak, when John D. Ryan, industrial magnate, was the dominating figure in the Anaconda Copper Company. As a matter of policy the Ryan interests had been busily engaged in buying up the world's deposits of copper and in the process had acquired substantial interests in the Chile Copper Company, the Andes Copper Company and the

Green-Cannanea Copper Company, all valuable properties. Their interests in Chile amounted to fifty per cent. Ryan wanted the other fifty per cent but found that it was held in part by the Guggenheims. Neither element wanted a fight, so they got together quickly and agreed on a basis of exchange, which was determined to be 73/100 share of Anaconda for a share of Chile. These terms were highly favorable to the Chile stockholders, but neither Ryan nor the Guggenheims intended to let them obtain this benefit. So carefully keeping their agreement as to the exchange basis to themselves, Ryan and the Guggenheims formed a pool and set out to buy up all the Chile stock that was available, letting the National City Company in for a third interest at this stage, possibly in order to sweeten them up for more important uses later. Before the offer of exchange was made public the pool succeeded in acquiring 108,000 shares, which it later turned in for Anaconda stock on a basis that represented a profit of about a million and a quarter dollars.

After completing this operation some two million shares of Chile stock were still outstanding and it became necessary to get this stock in at as little cost as possible, so the pool's operations were directed from this point on toward "stabilizing" the market—that is, keeping the price of Anaconda up and the price of Chile down, so that the basis of the trade might seem to be an even one. In the end they secured 98½ per cent of all outstanding stock and thus Anaconda was enabled to swallow Chile Copper on its own terms.

But this was only a curtain raiser. By the same methods the Anaconda crowd were able to absorb the Andes Copper Company (in which they originally held a fifty per cent interest) and the Green-Cannanea Copper

Company (in which they had held only a twelve per cent interest). With these vast new acquisitions the stage was now set for a gigantic unloading operation, for through these absorptions the insiders and their friends had secured enormous holdings of Anaconda and had to find a way to cash in. Enter Mr. Mitchell.

John D. Ryan was a director of the National City Bank and Percy Rockefeller, also a director of National City, was heavily interested in Anaconda. Mitchell was to be their Man Friday, for the job ahead was too large to be handled solely as a market operation. It required the entire efforts of the high-pressure selling organization which the bank's affiliate, the National City Company, had built up under Mitchell's direction. The market, of course, was not to be overlooked. It was constantly manipulated, so as to make it easier for the selling organization. The public likes to buy on a rising market. They got it in Anaconda. There was real teamwork. Merely as a preliminary, the dividend rate of Anaconda was increased, in three successive raises, from \$3 to \$7, while, it may be added, earnings dropped from \$4.74 per share to \$3.37 per share. As an incident of the operation a separate pool was formed on the side to boost the commodity price of copper from 18 cents to 24 cents—which it promptly did—thereby making it appear that the company's operations would be conducted at an increasing profit. All was now set for the big play and Mitchell gave it all that he had. Backed by the prestige of the National City Bank Mitchell's stock-selling emissaries carried the gospel of Anaconda into every city and hamlet that could be reached by train, automobile or dogsled, while Anaconda steadily moved up on the ticker—120—122—125—128—130—135. Within the space of a year

it had already moved up from 53⅜ to 120. During 1933 the same stock hit a low of 3½. All told the insiders cashed in to the tune of $225,000,000 in round figures and investors took a loss somewhat in excess of $150,000,000. A fine day's work for Mr. Mitchell.

It was such unholy combinations between the pool operator, or as frequently the promoter, otherwise known as the investment banker, and the big banks, conducted under the mantle of the Stock Exchange that has done most to bring Wall Street into disrepute. Taken together these three elements form a triumvirate that dominates the Street. The investment banker, or his alternate, the pool operator, or promoter, provides the merchandise; the big banks furnish the credit—and often in the old days through their affiliates the machinery of distribution—, and the Stock Exchange contributes the window dressing that makes the issues floated in the Street palatable to the investing public. Consisting mainly of market rigging, this window dressing affords the lure of advancing prices which tempts the unwary investor to turn his money over to Wall Street in return for highly decorated and often valueless bits of paper.

As a case in point, take the General Theatres Equipment financing which is described in detail elsewhere in these pages. As a part of this involved operation the company authorized an offering of some $30,000,000 of securities, backed by assets that had been cold bloodedly written up in value (with the full knowledge of the promoters but, of course, without the knowledge of the prospective investor) a mere matter of $38,000,000. The issue was underwritten by a so-called "banking group" headed by the Chase Securities Corporation—in the center of which stood the familiar Shermar Cor-

poration owned by the estimable Mr. Wiggin, (head of the bank). But, it appears from the evidence submitted to the Senate Banking and Currency Committee, the underwriters took pains to risk none of their own dollars in the deal. When the day for settlement arrived they simply turned over the securities in question to the Chase National Bank, against which they received a loan to the amount of the underwriting and out of this credit they made settlement with the Company. Before doing so, however, the underwriters had thoughtfully put together a syndicate of banking houses which parcelled out the issue among themselves for the purpose of distribution to the public, and this syndicate was likewise taking no chances. Again the Chase National Bank obligingly placed the funds of its depositors at the disposal of the bankers and against the securities as collateral, loaned each syndicate member his proportionate share of the purchase price, at the same time cancelling the loan to the original underwriters and letting them out with their profit. The syndicate then formed a trading account, otherwise designated as a pool, and under manipulation the securities became very active on the Stock Exchange, with the result that within a few short weeks the public owned the securities, the syndicate loans were paid off and the bankers were made happy with a profit of some two and a half million dollars.

Upon completing this neat piece of business the Chase crowd were so pleased with their part in the deal that they undertook to duplicate the transaction on several later occasions, the bank always holding the bag and becoming involved in the long run to the extent of some \$118,000,000, on which it took a loss of \$69,000,000 in round figures. But, be it noted, notwithstanding this

loss, Mr. Wiggin's favored Shermar Corporation took down a profit that ran up into the millions. As for the investors who bought the debentures in question at 99½, they still have them and they are quoted somewhere around 8, the water having been squeezed out of inflated assets and the corporation finally landing in receivership.

This is a typical instance of high financing as conceived and carried out by the biggest and most influential bank in Wall Street. The main cog in the wheel was the bank itself, which supplied the credit to carry the operation through. The Stock Exchange, of which some of the underwriters and syndicate participants were members, aided and abetted the undertaking by permitting the maintenance of a fictitious market and the investment bankers (in this instance, the bank's security affiliate) hatched the scheme and got away with the gravy. The fact that two of the banking houses involved were caught in later financing of the same kind and forced to close their doors was some measure of retribution but not enough, it will be admitted, to compensate the deluded investor for the loss of his hard-earned dollars.

In common with many other abnormalities of the pre-crash era the security affiliates have been dealt out of the game under the New Deal. It will be interesting to see in what form they will attempt to clamber back and perpetuate themselves.

Like the Stock Market, its little brother, the investment banking or underwriting business, thrives only in "boom" times, when the public appetite for profits can be whipped up to inordinate dimensions. That the get-rich-quick, or gambling, instinct is deep-seated in the average American goes without saying. Perhaps a

throwback to the spirit of adventure that led the early pioneers to risk their all in opening up and peopling the continent, it breaks out in many forms, from poker-playing to horse-racing, but this is no justification for an organized effort to prey upon this national weakness such as existed in Wall Street during pre-Rooseveltian days and was deliberately fostered by the banking interests which controlled the sources of credit. Periodically, with their connivance, the ignorant or bewildered trader or investor or speculator—call him what you will—was let in for a "sleighride" that landed him a helpless cripple in a snowbank at the foot of the hill. And the vehicle that was used for this purpose was that respectable, sacrosanct and impeccable institution, the Stock Exchange.

XV

THE NEW PHILOSOPHY OF WALL STREET

FROM time immemorial Wall Street has been committed to the Cyclical Theory. According to this theory the volume of trade rises and falls in regular cycles, which can be determined with a fair degree of accuracy, and this in turn is reflected in the market. Broadly speaking these cycles assume three forms—(A) the Major Cycle, covering a period roughly of thirty years, during which commodity prices and the volume of business moves either upward or downward, one movement succeeding the other, as from the early seventies to the late nineties, when the trend was downward, and from the turn of the century to 1930, when the trend was upward; (B) the Minor Cycle, running from eight to eleven years, during which there is a well-defined trend within the Major Cycle, and finally (C) the Short Term Cycle, ranging from 20 to 24 months, when there is a sharper movement of the same general character. If the course of business is charted over a period of time it will disclose a continual rise and fall, corresponding to the Short Term Cycle and alternating like pulsebeats, on a gradually ascending or descending line, within the Minor Cycle, which in itself is part of a broader trend that is either upward or downward—the Major Cycle. The movement with which we are most familiar

is the eight-to-eleven year Minor Cycle, since it is these fluctuations that have a visible effect on national well-being and either create or retard prosperity. During the long thirty-year cycles there are recurring periods of good times and bad times, as evidenced by departure from the mean line.

From the standpoint of economics this phenomenon is explained by various factors—variations in national income, wage rates, money rates, supply of credit, public confidence and availability of capital. In practise it appears that as business emerges from a downward cycle commodity prices, wage rates and production costs are low. This induces the investment of capital, which increases employment and builds up production. Increasing employment adds to purchasing power, with the result that enlarged production is absorbed and manufacturing profits accrue, and this leads to increased expenditures for capital goods. The growing demand for labor and materials tends to shoot prices upward, which further increases purchasing power, and as the national income increases bank deposits grow, credit becomes easier to obtain, money is more plentiful, business ventures are stimulated, speculation is encouraged and stocks rise in value. This is prosperity.

In the course of time these tendencies are accentuated with constantly increasing emphasis on speculation. Caution is disregarded, banks become less strict in their loan requirements, market operations increase in volume, the standard of living moves up—these are "boom" times.

But periods of over-expansion bring their own correctives. As these various factors get out of line trade slackens, markets tend to weaken, stocks are likely to collapse, bankers show concern, credit tightens up and

panic often ensues. The process of readjustment is generally short and drastic. Values descend much more rapidly than they rise. As credit is withdrawn wholesale liquidation occurs, money is hoarded, collections are bad, business finds it hard to secure funds, the volume of trade dries up. Finally prices reach a level where they again offer an inducement to purchasers and the cycle is started upward again.

This is the usual course of the Minor Cycle. Bear in mind that this process is constantly repeating itself within the scope of the Major Cycle. Thus since 1900 there have been four such movements, all easily distinguishable on the charts, reaching a climax in 1907, 1914, 1921 and 1929. Notwithstanding these cyclical adjustments, during all of this period the mean level of business, or prosperity, was ascending. Each cycle started from a higher level than the previous one, resulting in a long-term improvement in conditions. Prior to 1900 the trend had been in the opposite direction, with such Minor Cycles coming to a head in 1873, 1884 and 1893. During this period the general trend of commodity prices, wages and money rates was downward.

Since the middle of the last century the theory of business cycles has been accepted with as little question as the Ten Commandments. It has been a fixed principle in both business and economics and to doubt the soundness of the theory was bad form. That is, until the Coolidge-Hoover era got under way, when a new theory, born of the inflation propaganda racket, began to be noised about in business and stock market circles. Behind it was the prestige of a new school of economists who based their conclusions on the premise that industry was entering a new era in which the time-proven tenets of the past could be disregarded and discarded. Accord-

ing to this new philosophy industry had perfected a new technique which was to result in a prosperity that was to have no end. "Down with the cyclical theory" they said, "A new order of business and a new plateau of values in the stock market has been created. Panics and depressions are a thing of the past." To put it in Mr. Hoover's way, there was to be a permanent job for every man and poverty was to be abolished from the earth.

In a way the new theory revolved around a wheel within a wheel, or a series of wheels within wheels. Over a period it held that mass production, coupled with efficiency methods, had reduced costs to a point where wages could be increased, thereby affording added purchasing power for the absorption of larger quantities of goods. True, the machine had resulted in a certain amount of technological unemployment, but modern merchandising methods had increased consumption to a point where an enlarged demand would take up this slack. To avoid any possibility of slip-up a vast new market had been opened up through the time-payment system of buying—or was it selling? Here is where the benefits of inflation were to make themselves felt. The dusky gentleman in the woodpile.

If one was inclined to doubt the soundness of this theory he was invited to look about him. On the surface at least there were evidences of abundant prosperity on every hand. Every family owned its motor car and its radio—twin apostles of the New Era. In many garages there were two motor cars, in many homes a radio in every room and television was just around the corner. Electricity had made over the home. The woman of the house cooked, washed and ironed, swept and dusted, cooled and heated the temperature, kept track of the passing hours and generally ordered domestic

life by electric current. On the library table were books that told of the marvels of this scientific age—the Electric Age, which was to succeed the Age of Steel as steel had succeeded bronze and bronze had succeeded stone —this age in which physics and chemistry were making over life to fit a new pattern. In the morning newspaper one read of skyscrapers that were to reach up into the blue a hundred stories or more, of engineering achievements, dams and bridges and tunnels, that eclipsed the Seven Wonders of the World, of streamlined trains that would travel 110 miles an hour, of fifty and sixty-passenger aeroplanes, of zeppelins that were to ply their course over the seven seas and bring London nearer to New York than Chicago, of "Lone Eagles" who dared to fly the Atlantic and brave soldiers of science who gave their lives that mankind might enjoy a more abundant existence, of new discoveries in medicine and dietetics, synthetic foods and cures for diabetes, spinal meningitis and what-not that baffled belief—and always stocks were going up, *up,* UP, until a certain day in October, 1929, when the market crashed and carried the New Era philosophy down with it into a bottomless abyss.

In other "boom" periods there has always been an organized body of opinion that was founded on overconfidence. In fact, the essence of any "boom" is an unbounded faith in values that are unwarranted, but this was the first time in all history when such a state of mind was raised to the dignity of a scientific formula. But the theory was plausible. If one chose to look about him on any clear morning during 1928 or the early part of 1929 it was not difficult to convince oneself that he lived in a brave new world that was to be a world without end.

Had not the new President—master mind of all the ages—said so?

For, regardless of weaknesses in the structure, there was no lack of evidence to support this belief. As it happened, too, the form of prosperity that we enjoyed was doubly visible on the surface. It was a glamorous prosperity that revolved around us and caught us up in its sweep. It filled the streets with motor cars and the home with color and comfort. It gave us joy and entertainment within the home and excitement without—million-dollar prize fights, seventy and eighty-thousand football crowds and jazz-crazed speak-easies. It led us to buy fur coats and diamond rings and motorboats and raised the standard of living of small business men and junior executives who had not been accustomed to the good things of life to a point where they became everyday necessities.

Economically speaking, the forces that were responsible for this sudden uplift were mass production and mass merchandising, the one being the corollary of the other. For the one Henry Ford is deserving of credit—Henry Ford plus the war, which finished the job that Ford began. High wages, low unit costs, small profits were its ingredients. But this prescription called for volume and volume meant sales. Followed broad-scale advertising, high-pressure selling, intensive cultivation of markets, the development of installment selling—in a word, mass merchandising. According to the new philosophy this combination of effort and ideas created a perfect circle and on it we had built a new world—certainly a new economic era, on the strength of which Wall Street at least lost its head and the excesses of the pre-crash period were laid.

That there were flaws in the scheme was not immedi-

ately apparent. In the valiant mood which the world put on at that time it was not disposed to look for flaws. But, notwithstanding this, it was true that low-unit costs of production were in danger of being offset by high costs of distribution, in which case a slice was likely to come out of profits. Likewise high-pressure merchandising in the long run could not fail to result in overhauling that mythical saturation point which sooner or later threatens the distribution of any given product. True, some bright mind in the mass merchandising group developed the obsolescence idea to a degree which definitely postponed the exhaustion of markets by ringing in style changes from year to year, but in the course of time the issue still had to be met. Unfortunately it made itself felt first in the industry which had been the keystone of the whole structure of the new economic era, for automobile sales gave unmistakable signs of having reached the saturation point during the Summer of 1929. Doubtless the consuming public as a whole was fed up with the never-ending chase for its dollar which went on in every line and it was in a state of mind to lay off, for a while at least. At all events business began to slow down and as sales dried up in volume inventories piled up in factories and the manufacturer had something to worry about. Evidently the new-economic-era theory was not self-propelling. It worked so long as consumption was maintained at top speed and when it became necessary to pump additional oxygen into the structure the tank was dry or perhaps the balloon was already so inflated that it burst with the first ounce of additional pressure.

And So-o-o-o-o- (as the amiable Ed Wynn would have it) we got back to the cyclical theory or had it thrust back upon us, for suddenly we awoke to find our-

selves in the grip of a panic which was identical in its outward aspects with similar panics that had marked the turn of the cycle in previous times.

Wall Street and Big Business were both loath to admit it. Courageously and with the blessing of the President they shut their eyes to the facts and still clung to their satisfying philosophy until it was drowned out in the backwash of the Depression which followed the Big Break right on schedule. No longer is any voice raised in behalf of the New Economic Era or its philosophy. The good old Cyclical theory is back in the saddle, firmly intrenched by the logic of events which passes for experience.

Fundamentally the weakness of the new philosophy was that it was based upon the continual output of goods in *unlimited* supply while it took no cognizance of the fact that this called for the maintenance of an *unlimited* demand or bridged the chasm with broad assumptions that the natural growth of population would be enough in itself to keep consumption in step with production. Likewise it made no allowance for the fact that mass production tends to create output out of proportion to purchasing power. That is, the wages that it gives rise to are not sufficient to buy the equivalent of output in other goods. This tends inevitably to throw production and consumption out of balance and the big economic problem of the future unquestionably is how to get them into balance again and keep them there.

XVI

CASHING IN ON RESPECTABILITY

DURING the later stages of the Big Bull Market, when fatuous souls still clung to the idea that the New Economic Era was to have no end, certain "big-wigs" in the Street got the notion that they could corner the film industry. The idea was implanted in their covetous minds by a wily promoter from Chicago who had laid out a program for the absorption of a group of manufacturers of cameras and other motion-picture equipment. Later to be launched as the General Theatres Equipment Corporation, the project embraced four main units and was financed by a syndicate headed by the security affiliate of the Chase National Bank, whose head, Albert H. Wiggin, occupied a strategic position in the center of the picture. Wiggin's direct interest was represented by the Shermar Corporation, a family-owned, tax-dodging instrument which acquired a fifty per cent interest in the profits of the Chase Securities Corporation and made millions out of the operation while the bank and its affiliate sustained a terrific loss.

As a preliminary step the Chicago promoter, Harley L. Clarke, had merged the operating companies in the group into the International Projector Corporation, marking up its assets some $12,000,000 in the process. Having taken this step, 1,000,000 shares of common

stock of the new company were turned over to the General Theatres Equipment Corporation, which had been formed for this purpose, at a further markup of $26,000,000, making a total promoters' profit of $38,000,000. At the time that the deal was consummated the common stock of the International Projector Corporation had a book value of $2.22 per share and was earning about 73 cents per share. It was put into the General Theatres Equipment Corporation at $28.50 per share, all of which was well known to Mr. Wiggin and his associates.

The crowd that had rigged up this deal had big ideas and accordingly the General Theatres Equipment Corporation was liberally capitalized, with 2,000,000 shares of $3 Preferred stock and 4,000,000 shares of common stock, in addition to which some $30,000,000 of debentures were put out over a period of time. A considerable part of these securities got no further than the Chase National Bank, which contributed $89,330,147 in the form of loans to various syndicates handling the financing of the short-lived enterprise, on which the Bank ultimately took a loss of $69,572,180, while Mr. Wiggin's privately owned Shermar Corporation realized a profit of approximately $10,000,000. Altogether $117,718,750 was poured into the treasury of the ill-fated concern.

In a frenzied effort to build up promoter's and syndicate profits, before the project was fairly launched Wiggin, Clarke and their satellites put the company into a venture which was to have disastrous consequences. Wm. Fox, the film man, was in trouble. Owning a controlling interest in the Fox Film Company and its affiliated enterprises, he had become involved in bank loans which had him in a precarious position toward the end

of 1929. According to Fox, the General Theatres Equipment Corporation, with the aid of the banks in question, now set out to deprive him of his properties.

Off and on Fox had been in negotiation with Clarke for the sale of his properties and a figure of $55,000,000 had been discussed. But the negotiations had lapsed and in the meantime Fox had found an opportunity to acquire control of Loew's, Inc. Marcus Loew had died and his estate held a large minority interest in the corporation. Fox learned that this stock could be bought for the sum of $50,000,000 and after consulting with his bankers, Halsey, Stuart and Company (who had also figured prominently in Insull financing), he made arrangements to acquire it. In order to finance the transaction temporarily he obtained $15,000,000 from Western Electric interests and secured the remainder partly through Halsey, Stuart and Company and partly out of the treasuries of his companies. Within a few days after the transaction was completed the bankers became alarmed over the fact that the stock did not represent complete control and insisted on his buying enough in addition to give him at least fifty per cent of the company's outstanding shares. On their advice Fox bought 260,000 additional shares on the open market at a cost of $23,000,000, giving him 660,000 shares altogether, which had cost a gross sum of $73,000,000. Following this a question was raised by the Department of Justice in Washington, (at the instigation of his enemies, Fox claims) in regard to the legality of his control of the company under the anti-trust law and Fox was unable to go ahead with arrangements for refinancing the joint transactions. There was a delay of some months, during which he became more or less embarrassed financially, partly by reason of the fact that his

bankers had also induced him to acquire control of the Gaumont Company, of England, and this had cost him another $20,000,000, making $93,000,000 all told which was tied up. In order to ease his situation he did some temporary financing, which put him further in debt to the banks and also tied up his Loew's stock as collateral.

In the meantime the crash in the market had occurred and between supporting his companies' stocks in the market and carrying his loans, Fox was hard pressed. Finding it impossible to get further help from his banks, he went to Clarke and explained his situation but Clarke refused to do anything. At this juncture one of his notes fell due at a New York bank and when he asked for an extension the bank refused and seized his firm's balance. Other banks took the same steps, in some cases seizing his balances before maturities, according to Fox, and before he could turn around he was on the verge of receivership. In order to keep the situation in hand he was forced to place his stock in a voting trust.

At this point a representative of Clarke turned up and offered to relieve him of his troubles but the terms were such as Fox could not agree to. Fox then sold a block of his Loew's stock to the Eastman Kodak Company and this kept the bankers from selling out his entire Loew's holdings as they had threatened to do on the ground that they were "undercollateralized." But his position was still critical when Clarke himself arrived the next day. After some dickering, under pressure from the banks and the voting trustees who held his stock, according to Fox, he finally sold out his interests to General Theatres Equipment Corporation for the sum of $15,000,000, with certain perquisites on the side which brought the total consideration up to $21,-

000,000. Fox contended that he sold "under duress" from the banks, which were headed by Wiggin who, of course, was heavily interested in General Theatres.

But, whatever the real facts may be in this respect, the transaction ultimately broke the back of the General Theatres Equipment Corporation, for the burden of financing the deal was more than it was able to stand and in due course the company went into receivership. Most of the loss was taken by the Chase National Bank but Wiggin's Shermar Corporation got out with a fat profit. It was a case of "heads I win, tails you lose." The bank took the grief and Wiggin got the gravy.

Just to what extent the Wall Street banking structure is honeycombed with inside profit arrangements such as Wiggin's it is impossible to say, but between bonuses such as Mitchell and his fellow-officers drew, hidden syndicate profits and other equally dubious "cut-ins" which many enjoyed, it is safe to say that none of the bankers went hungry during the pre-crash era.

The question of "gravy" came up rather pointedly during the examination of Murray W. Dodge, vice-president of the Chase Securities Corporation, before the Senate Banking and Currency Committee in connection with the Fox deal. Following the acquisition of the Fox Film Company by the General Theatres Equipment Corporation there had been quite a struggle between rival bankers to get in on this business, for the film company appeared to be a "pick-up" at the price paid. Halsey, Stuart and Company had been the original bankers and it is not considered good form in the Street to upset arrangements of this sort. Once having originated a piece of business and taken the risk involved, according to the unwritten law of the Street, a banker is entitled to a continuing interest, but the Chase crowd

were not averse to getting around this "gentlemen's understanding" if it could be done without embarrassment. The bankers sensed this and Harold L. Stuart, of Halsey, Stuart and Company went so far as to tell Clarke that he "had been put out on end of a springboard and told to jump off". But that was not to be. After all, the Chase people were gentlemen and they let Mr. Stuart in to the extent of awarding his firm a syndicate participation of 133,500 shares of GTE and 250,000 shares of Fox Film as part of the financing required to clean up the Fox deal.

This was not done without some qualms of conscience, however, as a result of which Mr. Dodge wrote a confidential memorandum to the Big Boss, Mr. Wiggin, containing these illuminating lines:

"With Halsey Stuart and Company out, it is possible for me to discuss the whole financing with Kuhn, Loeb and Company again, a thing that I am loath to do, as the split-up of the gravy would hurt my feelings".

Later this memorandum came to light during the Senate Committee investigation, when Mr. Pecora who was conducting the examination of Mr. Dodge suggested blandly:

"Bankers frequently quarrel among themselves about a choice piece of financing business, do they not?"

"Bankers are human, like everybody else," the witness retorted. "And", said Mr. Pecora, "there are controversies about the division of the gravy representing the split on an issue?"

Mr. Dodge appeared not to understand the reference to gravy, whereupon Mr. Pecora produced the memorandum.

"I would say that you had one on me", assented Mr. Dodge.

But, after all, the aggrieved bankers in this case, Halsey, Stuart and Company, had no complaint to make, since they drew down a profit of $316,215.02 from their participation in Fox financing. Evidently some of the gravy spattered over and landed on the mantle of respectability with which the world of high finance surrounds itself.

If the question is asked: "What's the matter with Wall Street?", a concrete and convincing answer may be found in the devious record of this piece of financing. Conceived by irresponsible promoters and accepted in its entirety, with full knowledge of the duplicity involved, by the biggest bank in the Street, whose head was declared in on the "gravy" in return, it is alleged, for the financial support of his institution and the respectability which its name lent to the undertaking, it represented a bold and shameless scheme to clean up some easy millions at the expense of credulous investors. So long as Wall Street lends its support to schemes of this character it cannot hope to regain the confidence that it has lost. Likewise its example in this instance has resulted in a general let-down in banking standards throughout the country, as in Cleveland and Detroit where great banking institutions have been callously wrecked by practises that were similar in principle if not in kind.

But to return to Mr. Fox: If this astute and much-abused little man had given as much attention to his business as he did to the stock market it is possible that he would not have got into the hands of the banks. Having built up a concern of staggering size and importance in its field, he used it mainly as a market adjunct. During the Big Bull Market Fox developed into a pool operator of no mean proportions and maintained twenty-two

different brokerage accounts to handle his operations. As far back as 1927 a Fox Film pool netted a profit of almost $2,000,000 to a select group which included, in addition to Mr. Fox himself, the ubiquitous "Mike" Meehan who took down $215,306.92 as his part of the deal. Only 50,000 shares were involved in this operation but somewhat later a 500,000 share pool was organized in the same stock with correspondingly greater profits.

Due perhaps to its genii-like rise to affluence and to the atmosphere of easy money that surrounds it, the film industry has always held a fascination for pool operators, but no operation has been disclosed which equals in sheer audacity the Warner Brothers pool of 1930. During its early stages this company had had hard sledding and there had been little opportunity for the insiders to pick up loose change through stock manipulation, but in 1928 and 1929 the company's condition showed considerable improvement. During the earlier year the company absorbed the Stanley Company of America, owning a chain of 200 theatres and for the fiscal year ending August 1, 1928, showed a balance on the right side of the ledger. At the end of the following fiscal year earnings were in excess of $17,000,000 and the management took cognizance of this by declaring a 100% stock dividend, which amounted to a two-for-one split-up. About the same time the stock was put on a cash dividend basis, paying 12½ cents per share for the last quarter of 1929. This was raised to $1.00 for the next quarter. Warner now reached out and acquired First National Pictures, a sizeable producing unit, and the wires began to buzz with favorable rumors about the company's condition—sponsored (as it later appeared) by a paid publicity man. The stock was a sensational performer in the post-crash bull market, selling up to

80¼ for the new capitalization, which was equivalent to 160½ for the stock before the stock dividend. In 1927 the old stock had sold at 33¾. The stock paid another $1.00 quarterly dividend and according to reports it looked as if another melon was in sight. Then without a word of warning the directors met in August and passed the next dividend. It was a bolt from the blue and the stock took a "nose-dive," ultimately resting somewhere around a dollar a share.

What had happened? The usual thing. Dating from the beginning of the year the Warners had been unloading and had succeeded in handing the public practically every share that they owned at the top of the market. As soon as the stock began to reach bottom they started secretly to buy it back and got most of it around 15. In the end they bought back 412,829 shares, against 303,484 shares that they had sold, thereby regaining control of the company and pocketing a cash profit of $5,918,382.08 on the side.

On the witness stand before the Senate Banking and Currency Committee Harry M. Warner, President of the company, who engineered the deal, found it difficult to justify the operation but he was very frank. He admitted the facts, admitted also that reams of favorable publicity had been released while distribution was under way, admitted that he kept fully informed as to the financial condition of the company but affected to be surprised when he learned at the August directors' meeting that the company was not earning its dividend. When one of the senators asked him if it was common practise for company officers to unload on the public in this manner he brazenly replied: "I would think that it is."

If it be said that this is only to be expected in an industry that is as loosely run as the film business, suppose

we turn our attention again to the banking field, where we find conditions in Detroit that make these crude and irresponsible magnates of the film world appear almost sanctified by comparison.

Under the leadership of a youthful banker (so-called), Robert O. Lord by name, who within a few years had climbed from a clerkship in a Chicago real estate office to financial prominence, a holding company, the Guardian Detroit Union Group, Inc., had acquired ownership of twenty-three Michigan banks, including the big Guardian National Bank of Commerce, of Detroit, which failed in February, 1933, owing its depositors upwards of $90,000,000. Among those who were identified with its management were men who were prominent in the motor car industry, including Edsel Ford and a brother-in-law. In common with other banking institutions the group had felt the pressure of steady withdrawals and their situation was further complicated by an excessive quantity of bad loans in addition to defalcations which in one instance ran up to $1,600,000. The banks in the group carried large loans secured by collateral consisting of the holding company stock, which made it doubly necessary to keep up a good front. In order to do this it was essential to maintain dividends at a substantial rate and as it developed in testimony before the Senate Banking and Currency Committee the banks in the group were deliberately "milked" for this purpose, in the language of Mr. Pecora, counsel for the Committee. According to the testimony Lord, the president issued a "request"—in a form which practically amounted to an order—to the various banks to pay dividends to the holding company when it appeared that earnings did not justify their payment. In nearly identi-

cal form letters Lord requested the subsidiary banks to do this—in one such instance as follows:

"To provide for the dividend requirements of the Guardian Detroit Union Group, Inc., on the basis of an annual disbursement of $3.20 per share a dividend should be declared at the June meeting of your Board of Directors. I would suggest that it would be in order for your Board to declare a quarterly dividend equal to 20% annually. Please be good enough to promptly confirm this arrangement."

To this the Bank in question replied:

"As you are aware a dividend of this amount has not been earned. In addition to that the Trust Company is setting up no reserve and this is not as it should be."

In other words, the bank was asked to pay dividends which it had not earned, as the law requires, and properly objected. But none the less *the dividend was paid.*

Not satisfied with dressing up its windows through the payment of unearned dividends, the Group sought to make its members' statements look more presentable by wiping out their "bills payable" items. In order to do this various banks in the group a few days before statement date exchanged certificates of deposit for the amount of such "bills payable", thereby getting rid of the ugly items. Shortly after statement date the certificates of deposit were cancelled and the "bills payable" went back on the books, but the public only saw the published statements and hence no one was the wiser, but a check-up revealed the fact that the bank's statements to stockholders and depositors were not in accord with their statements to the Michigan Securities Com-

mission, where these items could not be covered up, and the "fat was in the fire."

Notwithstanding these frantic efforts to hide its real condition, the net gradually tightened around the Group and in a last desperate effort to stave off disaster the directors tossed into the pot some $27,000,000 out of their own pockets but even this was of no avail, for the Group finally went to the wall owing $350,000,000 to 400,000 depositors. Incidentally the steadily weakening condition of these banks led to the Michigan "Banking Holiday," which in turn was responsible for the banking crisis that faced President Roosevelt in his first days in office.

"The mills of the gods grind slowly, it is said, "but they grind exceeding fine" and in this instance fourteen of the respectable bank wreckers of Detroit found themselves under indictment a year or so after these conditions came to light.

XVII

FAR-FLUNG UTILITY EMPIRES

LIKE ALL GAUL, which was divided into three parts, (according to the *Caesar* of our second-year Latin) the control of power in America has tended to fall into the hands of three groups, which have practically divided up the nation's electrical resources. In the East the Morgan-Bonbright interests have come to dominate through control of Niagara-Hudson, Commonwealth-Southern, United Gas Improvement and the great holding company which finally came to absorb their other interests, the United Corporation. In the West the Byllesby interests control the Coast through Standard Gas and Electric and affiliated companies, with ramifications extending far to the east, and in the central section the North American Company and allied interests hold the upper hand, though by a narrower margin. In between and overlapping these empires at points lie the quondam principality of Samuel Insull and Middle-West Utilities, which once threatened to dominate the nation but now is sadly defunct, the broad realm of Henry L. Doherty and Cities Service, (more of an oil than a power property), and the sprawling octopus of H. C. Hopson, Associated Gas and Electric. Closely allied with the Morgan-Bonbright group is Electric Bond and Share, which reaches out for world control

through ownership of a dominating interest in American and Foreign Power, with properties in thirteen foreign countries and assets of half a billion dollars or more.

This concentration of control is strictly in line with the general trend of industry and on the whole it has been a natural development, for in the power field, more than any other, economy and efficiency can be obtained by volume. But at the same time it raises the question, which has often been raised before: Is there a Power Trust? or, to put it more exactly, *was* there a Power Trust, for the market collapse and the ensuing depression have played havoc with the alignments of earlier years. According to the power interests, the Power Trust is a myth and, so far as control by any single interest or group of interests approaches the point of monopoly, the weight of evidence seems to be on their side. But it is also not to be denied that the leading interests in the industry have been working toward the creation of one vast system which will control the entire production and distribution of power on the North American continent and one or another of the existing groups hopes to be the nucleus around which this great system will be formed. If there is any doubt of this purpose, read what Guy E. Tripp, Chairman of the Board of the Westinghouse Electric and Manufacturing Company, wrote in a book published over his name, *Super-power As an Aid to Progress*.

"Some day if the people of the United States and Canada desire it", he says, "a single 'super-power' system will furnish electric current to the greater part of the North American continent", and adds further on, in elaboration of this thought: "By means of a single superpower system, extending from ocean to ocean and receiv-

ing power from every waterfall, from the waste products of industry and from all other economical sources, including huge steam plants of the most efficient type placed in the coal regions and other favorable locations, we shall be able to distribute the maximum of power obtainable from our resources to the largest number of people at the lowest possible cost."

Elsewhere he states that "This system is being developed more rapidly than most people are aware. Because of the economic and technical advantages of large systems, the present tendency in the electric light and power industry is to consolidate or interconnect adjacent systems; and as a result, super-power systems of considerable size have already been formed along the Pacific Coast, in the South-eastern states, New England and the North-West. Others are in process of formation in Western Pennsylvania, the Middle-West and elsewhere. Continued development along these lines, including high-tension interconnections between adjacent super-power systems, will bring into being two large power systems, one covering the country east of the Mississippi and the other west of the Great Plains. Then, if some time in the future, transcontinental lines join these two systems together, the single system will be consummated."

"Even complete and detailed plans for the final system have been prepared", he concludes. "These plans are the work of Mr. Frank G. Baum, a hydro-electric engineer of long experience, and have been made available to the industry with the assistance of the Westinghouse Electric and Manufacturing Company. Guided by these plans, or by some standardized modification of them, electric light and power companies in the remotest parts of the country can carry on new construction and

extensions with the assurance that, when the time comes, their systems will be able to take their proper place in the single system."

Just how far the actual development of this vast system has proceeded has become more apparent in recent years. Heretofore the facts about power control have not been easy to get at. They have been closely guarded by the power interests. But a few years ago, in 1925, Congress authorized an investigation of the utility corporations by the Federal Trade Commission and in the face of many obstacles created by the power people, the facts have gradually been dragged into the light. The investigation has not yet been half completed but it has already built up a fairly adequate picture of the power industry as it had been developed up to the end of the pre-crash era.

Briefly, there are five facts that stand out vividly from the revelations of the Commission up to this time, as follows:

1—A steady concentration of control, through mergers, consolidations and holding companies.

2—A vast inflation of capital accounts, by means of write-ups in the valuation of properties.

3—Excessive earnings on actual capital invested.

4—Inflated valuations used as basis of extorting higher rates.

5—Excessive service charges reflected in increased rates.

The outstanding fact in utility development during the pre-depression period was the growth in the number and size of the holding companies. The movement toward consolidation has been progressing steadily since the war, but in the later years of the Big Bull Market, when the public appetite for group investments had been whipped up to a frenzy, bankers and promoters

turned with one accord to the holding company as the simplest and most effective means of reaching the public purse. They succeeded in doing so to the extent of some ten or twelve billion dollars and at the same time brought about a concentration of control within the industry that has gone far toward establishing the one vast system that the leading power interests dream of realizing.

The extent to which holding companies have fastened their grip on the industry appears from the fact that as long ago as 1925 nineteen of the leading companies controlled 83.1 per cent of the total power output of the country. Of these one group of five companies controlled 46.9 per cent; a second group of eight controlled 22.8 per cent and a third group of seven controlled 13.6 per cent. Since 1925 this control has been vastly extended and unified by combinations that have brought together many units within the groups and added others that stood outside. As reported by the Federal Trade Commission, 3,895 such combinations occurred from 1924 to 1929 (inclusive), involving total assets estimated as in excess of $15,000,000,000.

From the operating standpoint it is possible that the holding company justifies itself, but it is a question whether the abuses which it has consistently fostered have not been more than enough to offset its advantages from the point of view of public policy. Thus, there is no doubt that the holding companies have provided engineering and managerial skill which the small companies could not afford; they have improved the quality of service and reduced operating costs through mass purchasing and by displacing small inefficient plants by large generating stations; they have extended the scope of electrical service by high-tension lines and have solved

the problem of financing for the small units. From this point of view the benefits of the holding company cannot be questioned and, it may be added in passing, their intricate and involved capital structures have offered unlimited opportunities for profit to the banker and promoter, but the interested third party, otherwise known as John Q. Public, has a different story to tell. According to him, the public pays for these benefits—and pays well—both in excessive rates and in promoters' profits.

From the financial standpoint the holding company permits a concentration of earnings in the hands of its common stockholders to the disadvantage of the security holders of the operating, or subsidiary, units, thereby making it possible for a favored few, generally the bankers or promoters, to obtain more than a just share of the earnings. In setting up the holding company, according to accepted practise, working capital of the operating companies is provided through the issuance of preferred stock or bonds, whose return is limited to six per cent or thereabouts, while the holding company acquires the equity stock (usually for a nominal consideration), and this stock derives the benefit of any earnings in excess of fixed interest or dividend charges. Net earnings may run anywhere from 8% to 15%. It is not uncommon to superimpose other holding companies upon the first, sometimes up to five or six in number, each layer of the pyramid being set up with similar capitalization of bonds or preferred stock, and the next holding company above in each instance holding the common stock and so absorbing all excess earnings over and above fixed charges. In this way the top company may derive all the profit above six per cent from a group of holding companies, each of which represents a large group of operating units and its earnings may amount to

50% or 100% or even more on its original investment.

To give a concrete example: earnings of the Electric Bond and Share Company over a period of years, as reported to the Federal Trade Commission, amounted to 42.95% on the original cost of its holdings and in one isolated case actually amounted to 3,102.62% on its investment in a subsidiary holding company. In another case they amounted to 2191%. In the same way the American Power and Light Company reported a return of 51.86% on one company, 54% on another and 96.8% on another. The American Gas and Electric Company reported similar earnings ranging from 46% to 65%.

From these and other similar cases the Federal Trade Commission concludes that earnings of 15% to 50% are not uncommon among the holding companies and they often run as high as 100% or more. Thus, it is evident that the holding company has afforded a medium of unusual profit to the promoter and his side partner, the banker, and while this may not be of direct concern to the consumer, it decidedly affects the investor who provides the working capital and indirectly it has a bearing on the rates charged to the consumer, as we shall see later.

But the holding company has other sources of profit aside from the direct return on its investment. It has become common practise for the holding company, or a special subsidiary organized for this purpose, to take over the managerial and engineering activities of its operating units and the fees for these services are large, often showing profits ranging up to several hundred per cent on the actual cost of the services rendered. This charge, of course, becomes a burden upon operations, thereby affording additional leverage to obtain higher rates from the consumer. Likewise the holding company

receives a fee for any financing which it undertakes on behalf of the subsidiary and it is the rule to capitalize this charge, so that the consumer ultimately finds this item also reflected in rates. During 1927 the income from these several sources reported by the Electric Bond and Share Company amounted to $18,513,300.85.

From this it will be seen that the holding company loses no opportunity to derive a profit from the activities of its operating units, but its chief function is still to be disclosed. From the testimony submitted to the Federal Trade Commission it is evident that the main advantage of the holding company lies in the opportunity it affords to write up the values of operating properties and so to establish a constantly rising basis for fixing rates. Thus, it was disclosed only recently that the Cities Service Company had written up an original investment of $12,000,000 a round $100,000,000, or more than eight times over. At the end of 1927 the Electric Bond and Share Company carried investments in certain companies on its books at $20,310,516.48. The actual cost of these investments amounted to $9,161,109.94 and the balance, or $11,149,406.54, represented write-ups in the value of these holdings. These values were determined in various ways—through reappraisals, through values placed on stock dividends and values given to bonus stocks. During the year in question, 1927, the Electric Bond and Share Company effected a reorganization, as a part of which its properties were written up and the total write-up amounted to $399,201,827.

A similar instance of inflation was revealed in the records of the American Power and Light Company, which showed a write-up in the value of certain holdings from $55,284,426.40 to $123,725,358.16, or $68,440,-931.76—about 124 per cent. An even more striking case

came to light in the Washington Water Power Company, which originally invested $50,000 in a small subsidiary. Within nineteen years the value of this investment had increased on its books to $532,974.02 without the investment of a dollar of additional capital.

With the investigation only half completed, the Federal Trade Commission had found records of such write-ups to a total amount of $925,985,795.26—on all of which, as Senator Norris stated in the Senate, the consumer "must pay a profit for all time—not only for a day, not for a year, but unless some change is made by the proper authorities it must be paid forever."

The real significance of such inflations of value lies in the fact that the power interests have been conducting a determined campaign to establish book values as the basis for fixing rates in place of actual values. The question of rates is, of course, the central issue in the whole power question. After a good deal of effort the companies succeeded in establishing the principle of a "fair return" as a fundamental basis for determining rates. This return is generally accepted as somewhere around 8%, but the basis on which to figure the return is not so definitely established. In principle most of the states allow the actual value, or "reproduction cost new less depreciation", but this is not enough to satisfy the power companies. They have uniformly contended for book values, which, of course, would allow them a considerably wider margin of profit, and there is no doubt that these inflated values will establish a prima facie case for values in excess of actuality if they can gain their point. At the worst they give the companies ground for an argument, which the courts are always likely to sustain. Likewise it is to be borne in mind that inflated valuations make it easy to issue securities in excess of proper re-

quirements and the fixed charges on such securities are chargeable against operating expenses, thus making it necessary to earn a larger net return, which in turn affects rates. The same applies to excessive fees for managerial or other services, such as the holding companies are wont to charge.

Just how much these service charges may amount to is indicated by the fact that income of the American Gas and Electric Company from such sources, from 1917 to 1929, amounted to $16,624,526. In 1927 its profit from these services over and above cost was 71.6%. In other words, 71 cents out of every dollar was clear profit. In 1927 such income of the Electric Bond and Share Company from one of its subsidiaries alone was $1,633,202. According to accounting practise these expenses are a proper charge against operations and must be absorbed before calculating the "fair return" on which the rates are based.

In the last analysis the question of rates comes down to the cost of producing and delivering power and in the course of its investigation the Federal Trade Commission threw some interesting light on this subject. According to the records of the Alabama Light and Power Company, the cost of production, after making due allowance for interest and depreciation, is .891 cent, or less than one cent, per kilowatt hour. Over against this, the average charge to domestic consumers is 5.56 cents and the top charge is 16 cents (80c for the first five kwh.), or eighteen times the actual production cost.

Commenting on this condition, Frederick M. Sackett, one-time Ambassador to Germany and a power magnate himself, said in an address delivered before the World Power Conference in Berlin, in 1930:

"In most of the great centers of population, in Amer-

ica at least, the consumers pay for household service around six cents per kilowatt hour, or *fifteen to twenty times cost.*" To this he added: "I know of no manufacturing industry where the sale price of a product to the great mass of consumers is fifteen times the actual cost of the article sold . . . Until the power business is brought in line with other industries in the relationship of its cost of production to the price paid by the consumer of the product there can be little justification for the thought that this great power industry is rapidly approaching perfection."

The wide disproportion between the production cost and the delivered price of power for domestic consumption is due in no small part to the practise which has become general throughout the industry of supplying industrial or wholesale power at a nominal rate and making up the loss of profit at the expense of household consumers. In principle it is possible that this policy is not unsound but there is little justification for the wide disparity that exists. As it is, the small domestic consumer is heavily taxed for the benefit of the large industries, which often include other power companies or their subsidiaries. Thus, in the case of the Alabama Power Company, industrial or wholesale users pay 1.02 cent per kwh. and residential consumers pay an average rate of 5.56 cents, or more than five times as much. In both cases a considerable part of the output is bought from the government plant at Muscle Shoals at a cost of 2 mills (.2 cent) per kwh., to which, of course, must be added the cost of distribution.

As to this item, the government's engineers report that hydro-electric power can be developed and delivered at the switchboard at a total cost of 1.352 mill and the cost delivered at 250 miles is only 2.467 mills. Note

that these figures are expressed in mills, not in cents. Evidently there is ample room for profit.

Notwithstanding the trend toward the absorption of municipal plants by the private companies, the chief bugaboo of the power industry since its inception has been municipal ownership. At one time this was a factor of no little consequence in the industry. As recently as 1922 forty per cent of the total number of power plants were under municipal control, but such plants, it is to be noted, produced only 4.7% of the total power output. In explanation of this disparity we find that during the early days of the industry the private companies, fairly enough, restricted their operations to well-settled areas where power could be produced and sold in volume at the highest profit and municipal operation was seldom undertaken except as a last resort when power was unobtainable from private companies, which resulted in such operations being conducted under the most unfavorable conditions. For this reason, coupled with the development of high-tension power lines, which constantly tended to reduce the cost of production for the larger units, the municipal plants, with some exceptions, have not made an impressive record and in many cases have sold out to the private companies as their consumption developed, leaving the municipalities in possession only of small plants with limited output. Nevertheless the industry as a whole has continued to recognize this threat to its dominance and has conducted a widespread campaign of propaganda against municipal ownership in any form. In some parts this has been due to several striking object lessons in municipal or state operation on a scale comparable to that of the larger private units, resulting in each case in lowered costs and correspondingly lower rates.

In this country the most notable instance exists at Los Angeles, where the city undertook the production and distribution of electricity in 1916 in competition with privately owned companies. Through reductions in rates and improvements in service the city plant gradually drove the private companies out of the field, all except one selling out to the city. From the start the city established a rate of five cents per kwh., where it has remained with minor variations since, in comparison with a rate of 6.2 cents maintained by the companies. Notwithstanding its low scale of charges, within a period of eleven years the municipal plant paid off two-thirds of its bonded indebtedness and had a net worth of $23,000,000 over all liabilities, including outstanding bonds. It is generally recognized that the low power rate has had not a little to do with the phenomenal development of Los Angeles as an industrial center. Aside from its bond indebtedness, in order to finance this project the city appropriated the sum of $4,736,000 from taxation, on which it received a return amounting to $32,000,000 in savings on rates during the first eleven years. Not a bad investment.

If it be argued that this is an isolated instance we can find an even more impressive object lesson across the border, in Canada, where the Hydro-electric Commission of Ontario has built up a remarkable record. The Commission started the delivery of power in 1910 and six years later it was distributing more than a million horsepower annually and had under construction plants which would provide additional horsepower of 1,300,000, all of which has since been utilized. The area served by the Commission is not restricted to a single locality but covers a wide field, in which respect its operations are practically identical with those of privately owned

systems. It supplies industrial users as well as domestic consumers and provides power at wholesale to municipalities which do their own distributing, in all cases at a substantial saving in cost, domestic consumers paying on the average about two cents per kwh., or less than a third of the cost to customers of private companies on this side of the border. Incidentally, these low rates have brought about a vast increase in the use of electricity in this territory, the average domestic consumer using 98 kwh. per month as compared with 39.36 kwh. in the United States.

The Ontario experiment, no less than that of Los Angeles, has supplied a convenient and effective yardstick with which to measure power costs as a basis of rate fixing and it has been a thorn in the side of the power interests, who have put forth elaborate efforts to destroy the force of this evidence, but they have found it difficult to get away from the facts. The plain truth is that the Ontario Commission has succeeded in doing a public job with greater efficiency than private enterprise and so has struck a blow at the heart of the power companies' argument, which is based on the assumed incapacity of government to function effectively in the field of private enterprise.

In their efforts to justify their position the power interests never weary of citing the fact that the trend of rates has been downward during recent years and there is no doubt that this is so, but it is to be questioned whether the reduction in rates has been nearly sufficient to offset economies effected by improvements in production methods or by the vast increase in the volume of output. According to the Electrical World, operating expenses (not including taxes and depreciation) amounted to 45% of gross revenues in 1922, to 43.8%

in 1926 and to 43% in 1927. During this period the cost of producing a unit of one kilowatt dropped from 1.64 cent to 1.42 cent, or 14%. On the other hand net operating income per kwh. has increased from 81c to 90c, or 11%. Admitting the downward trend of rates, it is necessary to recognize that production costs have likewise come down and the net gain to the industry has been considerable.

But to return to the holding companies. There is another angle from which the holding companies enter into the rate-making question. In order to escape state regulation power companies have adopted the practise of wholesaling power from one state to another and have sustained the position in the courts that the state cannot look behind the corporate entity. Thus it has been held that a holding company in New York may wholesale power to one of its subsidiaries, which is a separate corporate entity, in Pennsylvania and so keep beyond the reach of the Pennsylvania regulatory body, thereby obtaining practically a free hand in making rates.

Like the Stock Exchange, the power industry has fought regulation at every turn and where its efforts have been unavailing it has resorted to political influence or press control to achieve its objectives. Particularly in the courts its efforts have been effective. Almost without exception the courts have stood behind the power companies in their raids on the consumer's purse.

Very early in its existence the power industry recognized the need of an informed and favorable public opinion and for this purpose has built up a propaganda machine which is second to none in point of effectiveness. The fountainhead of its activities is the National Electric Light Association—better known as Nela—which

is maintained by the power interests as a whole for the purpose of co-ordinating their activities and advancing their common interests in all fields. 1,593 power companies are members of this association, in addition to 17,331 individuals, making a total membership of 18,924. Financial support is derived from an elaborate system of fees and dues, yielding a gross revenue in excess of $1,000,000 per annum. Among the manifold activities of this organization, none makes such a demand on its resources as publicity, which is under the control of a national committee, known as the Information Bureau Organization Committee. This committee works through or co-operates with 28 state bureaus or committees covering 38 states. Year after year the association releases a flood of leaflets, pamphlets, booklets, reprints of addresses and other propaganda for the purpose of influencing public opinion. This is done through innumerable channels, both local and national, and the association does not stop at the circulation of printed matter. It maintains lecturers and subsidizes writers who conduct a continuous "campaign of education" through newspaper and magazine publications, broadcasts and personal contacts. Special attention is devoted to schools, colleges and women's clubs and its influence upon the radio is obvious from the fact that General Electric, Westinghouse and Radio Corporation, which have extensive affiliations in the utility field, are associated in the ownership of two of the leading broadcasting systems, one of which is headed by a former publicity director of Nela. Before that a member of a State regulatory body, it is evident that this shining light of the industry sold out to the power interests lock, stock and barrel.

As a part of its never-ending effort to influence public

opinion, the association maintains two separate press agencies at remote points and supplies them with ample funds for propaganda purposes. With a constant stream of advertising pouring in from the utility companies, the newspapers have not been backward in printing these agencies' "canned" editorials, news and other items, which are invariably directed at the attainment of the power interests' private objectives. Thus, in one year alone, one of these services reported the publication of items aggregating 1,954,398 inches of newspaper space. The service was supplied (without cost, of course) to between 13,000 and 14,000 newspapers throughout the country.

In order to give additional effect to its propaganda work, in recent years the industry has brought its advertising and publicity activities into line as parts of a broad plan to influence public opinion. Altogether this program involves the expenditure of upwards of $20,000,000 annually for advertising and the Information Bureau sees that appropriations are restricted to "loyal" newspapers, which can be counted on to "blow their trumpets" in the interest of the utilities.

But the power industry does not rely on propaganda alone in its efforts to control legislation: Lobbying is one of its chief activities and as late as the year in which this is written a grave scandal was disclosed in the New York Legislature, when it appeared from letters written by the Chairman of the Senate Public Service Committee that he was accustomed to work hand in glove with the power interests and had even gone so far as to accept money from them in payment for services and expenses. When the occasion demands the industry is lavish with appropriations for political purposes, as in California, where it is of record that $501,605.68 was spent in a

statewide effort to defeat the Water and Power Act, which would have empowered municipalities to engage in municipal operation on a broader scale, the money coming from six companies, of which the Pacific Gas and Electric Company was the largest contributor, subscribing $133,947.80. The California Edison Company expended more than $100,000 to defeat the same act and, it may be noted in passing, that these efforts were not without success, for the bill was killed.

In their activities either in the field of propaganda or of direct lobbying the power interests have two primary objectives: to build up their case for higher and ever higher rates and to destroy any manifestation of public ownership, wherever it may appear. Thus their forces were arrayed for years against both the Muscle Shoals and Boulder Dam projects and were responsible for interminable delays. They still stand in the way of President Roosevelt's St. Lawrence River development.

At Muscle Shoals the question was not one of getting into government ownership but of getting out of a situation in which we were already heavily involved. At the end of the war the government found itself in possession of great nitrate and power plants, representing an investment of $150,000,000 and the question was what to do with them. From the standpoint of public policy, in view of the importance of nitrate in the manufacture of munitions as well as its peacetime value as fertilizer, it seemed necessary to keep the plants on a productive basis, but at that time the country was reluctant to see the government engage in large business undertakings and Washington sought to dispose of the properties. Bids were entertained from various sources, including a proposal from Henry Ford, but all were rejected on account of inadequacy. In the meantime it

came to be apparent that Muscle Shoals was probably the greatest single power site east of the Rockies. The primary installation will develop more power than is now developed on the American side of Niagara Falls and the utilization of this power will control the industrial development of the entire South, which is enormously rich in potentiality. Should we turn this natural resource over to private exploitation or let the government develop it for the benefit of the inhabitants of this district? That was the question. Twice Congress answered it in favor of government development and twice the bill was killed, once by a pocket veto of Coolidge and once by outright veto of Hoover.

From the first the power interests opposed government operation with every resource at their command. They fought the project, tooth and nail, by propaganda, open opposition and by secret lobbying. In the end they came out into the daylight and showed their hand, when the chief power interests of the section, headed by the Georgia Railway and Power Company and the Alabama Power Company, put in a bid for the property. On the surface it was a plausible proposal, offering to develop nitrate production as well as power sources, but it was full of loopholes and Congress greeted the offer by again passing a bill for goverment operation. By this time, fortunately, a more liberal administration had come into command in Washington and under Roosevelt's influence the bill had been broadened out into a vast scheme to develop the Tennessee Valley as a part of the program of recovery. The bill was signed, of course, and duly became law.

And so, with the injection of the Georgia Power Company and the Alabama Power Company into the situation, we get back to Wall Street. For both of these com-

panies are subsidiaries of Commonwealth and Southern Corporation, which is, in turn, a subsidiary of the United Corporation, which is the pet project of J. P. Morgan and Company—who are not unknown to Wall Street.

That the utilities played a leading part in the stock market debacle of 1929 is a fact of such recent and poignant memory that it hardly need be dwelt upon. To cite the names of Middle West, Insull Investments, Cities Service, Central States Electric, Electric Bond and Share and American and Foreign Power is to conjure up a picture of top-heavy stock pyramids which toppled overnight from the dizziest heights to abysmal depths.

Strangely, up to the period of the Big Bull Market the utilities were not in favor in Wall Street. With the exception of Consolidated Gas, Brooklyn Union and a few other banker-controlled street railway and power properties they were consigned to the province of the irresponsible promoter. On more than one occasion would-be members of the New York Stock Exchange have been denied admittance on the ground of their records as utility promoters. But this attitude underwent a decided change during the later years of the bull market, when the utilities finally came in to their own and utility stocks found a place even among the "blue chips". Not soon will many investors forget North American, Goldman Sachs Trading, Shenandoah or Blue Ridge—the last two being among the last great investment trust flotations put out before the curtain was rung down on this halcyon era. Put forth with greater fanfare than any previous offerings of these mad, wild days, they turned out to be merely wastebaskets for their promoters, who through these mediums unloaded enormous holdings of unmarketable stocks at the top of the market.

XVIII

BREAKDOWN

FOR a year or more prior to that fateful 23rd of October, 1929, when stocks started their spectacular "nose-dive", business had been "spotty", as the trade journals and analysts put it, despite the general impression of prosperity on an unprecedented scale. With the exception of automobiles, radios, refrigerating systems, various electrical devices and a group of luxuries or semi-luxuries, whose sales had been universally fostered by high-pressure merchandizing or the time-payment system of financing, business as a whole had not been all that it seemed. At its best, the so-called "Coolidge prosperity" of the Twenties was an elusive thing and lacked a sound, enduring basis. Partly the result of political propaganda and partly inspired by Wall Street "ballyhoo", it was more effervescent than real. Even at the so-called peak, in 1929, commercial loans of the Federal Reserve System amounted only to $12,814,000,000, as compared with $12,844,000,000 in 1922, and at no time in the interim had they exceeded these figures, indicating that business was making no abnormal demands on credit. Over against this, brokers' loans had increased from $650,000,000 to $8,500,000,000, leaving no room for doubt as to where the country's credit was going. Evidently it was being absorbed by specula-

tion in the stock market, the natural result of the inflation conspiracy which had been hatched in Wall Street and carried out with the aid of Washington.

That the false activity of the stock market and the noisy acclaim of those who had paper profits created an atmosphere of prosperity, or pseudo-prosperity, there is no doubt, but likewise they obscured the real situation. As a matter of plain fact, many of the key industries of the country had been in a deplorable state since the close of the war. Chief among these were the textiles—wool, cotton and silk—leather and shoes, coal, paper and, above all, agriculture. In all these fields production capacity far outran demand. A graphic instance was the shoe industry, which had a plant capacity of 900,000,000 pairs of shoes per annum, with an actual consumption of only 300,000,000 pairs. The industry was loaded down with idle plants, eating up interest and overhead charges voraciously. To take up the slack would have required an increase in the consumption of shoes, even after making allowance for a normal export demand, from 2½ pairs per capita annually to 5 pairs per capita, which was obviously out of the question. The same condition applied in a somewhat less degree in the clothing industry, where changing styles resulted in large profits for a few manufacturers and losses for many others. Coal had faced increasing over-production since the war, combined with a falling demand, due to the competition of gas, electricity and oil. But most serious of all in its effect on purchasing power was the depressed state of the farming community, where vast unexportable surpluses had accumulated from year to year, resulting in a carry-over of 91 million bushels of wheat and 20 million bushels of corn as early as 1927. The meat-packing industry was in little better state, with the

price of beef and pork both depressed, as in the case of other farm products. The effect of conditions in these important industries was to reduce purchasing power to an extent that was barely offset by the prosperity of the luxury industries.

As the last two years of the Big Bull Market opened, notwithstanding the opinion generally held that stocks were too high, a sensational advance in prices occurred early in March, 1928. The market made the front pages of the newspapers as General Motors jumped 5¾ points, then another 9¼ points, Radio 12¾ points, American Can 7 points, Allied Chemical 4 points and U. S. Steel 7 points.

Under the impetus of buying from interests which had stayed out of the market up to this time prices continued to climb steadily until May, when there was a spectacular break, due to a collapse in the Giannini group of bank stocks, which were speculative favorites on the Pacific Coast. Despite the banker's own warning that the stock of the largest bank in the group—Bancitaly—was overvalued, it had been steadily pushed up until the stock toppled over by its own weight and carried the rest of the group along, with losses ranging from 80 to 200 points. The debacle wiped out many speculators on the coast and had an immediate repercussion on the New York Stock Exchange where a wild outburst of selling caused heavy losses and, incidentally, resulted in the first five-million-share day. It was a break of no mean proportions, but the market quickly recovered and prices headed up again when the ticker brought the news of Hoover's nomination for the presidency, insuring, as it seemed, a continuation of the new economic era, together with the policy of credit inflation

which was its life-blood "Four more years of prosperity" was the cry and it found a ready echo in the Street.

The Hoover Bull Market got its start with the election in November. Late in that month Radio sold up to 400, Montgomery-Ward to 439⅞, International Harvester to 368, Wright Aeronautical to 263, U. S. Steel to 179½ and Stock Exchange seats sold at a new high—$580,000. By this time five-million-share days had become matters of common occurrence and prices continued to rise until December, when there was another collapse, due apparently to realizing sales by a group of large operators. For several worried days it seemed that the bottom had fallen out of the market, but after the first shock the ship righted itself again and the profit takers evidently reconsidered their action, for the advance was again resumed.

But the break had thrown a scare into the Federal Reserve Board and at this late date, after more than a year of complacency, they tried to put on the brakes. Obviously the remedy was a drastic raise in the rediscount rate, but the authorities were not equal to this radical measure. They feared a panic which might have a serious effect on business. So they compromised and decided instead merely to exert pressure on member banks to prevent reloaning of Reserve funds to brokers and issued a public statement to this effect. The immediate result was a temporary reaction in the market. A secondary result was some tightening up in credit, the call money rate jumping to 20% within sixty days. Under the stress of high money rates the market collapsed again and liquidation resulted in a turn-over of more than 8,000,000 shares in a single day. Once more it looked as if the balloon was about to burst, but promptly a group of New York banks came to the rescue and set about

pumping oxygen into the weakening structure. Thumbing his nose at the Federal Reserve, Charles E. Mitchell, president of the National City Bank, coolly offered to loan $20,000,000 at rates ranging from 15% to 20% and the day was saved for the bankers and brokers. As for the deluded public, as usual, it waited for a more severe lesson to bring it back to its senses.

With call money bringing 15% or better, the big corporations now began to throw their cash surpluses into the stock market in increasing volume and soon the "Loans from others" items in the weekly bank statement began to assume staggering amounts. At the peak it reached a total of 3½ billion dollars and served to set at naught any tardy efforts that the Reserve authorities might have sought to make to control the flood of speculation that was swamping the country.

At this point the speculative crowd took the bit in its teeth and rushed prices up from previous highs to new highs at a pace which indicated that the sky was to be the limit, but flurries were occurring with a frequency that gave some cause for alarm if there had been any to take alarm. As it was caution was thrown to the winds and throughout the summer prices rose until they reached the pinnacle early in September, with General Motors selling at 139¾, or the equivalent of 181⅞ before the split-up, American Can at 181⅞, New York Central at 256⅜, U. S. Steel at 261¾, Westinghouse at 289⅞, General Electric at 396¼, Montgomery-Ward at 137⅞, equal to 466¼ for the old stock, and Radio at 101, or equivalent to 505 for the old stock.

But the end was close at hand. On many sides it began to be heard first in whispers and then in louder intonations, that business was getting bad. Steel orders were falling off. Carloadings were down. Automobile sales

were slowing up. This was not the sort of news needed to sustain an overextended market, so prices broke again. The list of stocks cited above sold off from 20 to 50 points, but still there were takers as fools rushed in where wise money feared to tread and the big boys unloaded their lines. Ignoring the plain facts of the situation, gullible traders took comfort in the thought that the latest collapse had been due to the failure of the Hatry companies in England, which had occasioned liquidation on the American market. It was a temporary reaction, that was all. The market would correct itself, as it always had. Now was the time to step in, they argued, when stocks are off a few points. It may be the last chance to get aboard.

But the last chance had already passed and, in spite of occasional spurts, the market as a whole continued to slide downhill, by almost imperceptible stages, it is true, but nonetheless surely, until it rested at levels ranging from 10% to 20% below the peak.

Early in October the situation had become so grave that Mr. Mitchell again felt it necessary to go to the rescue, this time with a reassuring statement, bethinking himself, no doubt, of some millions of "undigested securities" that lay upon the shelves of his bank's affiliate, the National City Company. "Although in some cases speculation has gone too far", he solemnly announced, "the markets generally are in a healthy condition. The last few weeks have done an immense amount of good by shaking down prices. . . . Market values have a sound basis in the general prosperity of the country." Following this up two days before the final crash came he delivered this opinion: "I know of nothing fundamentally wrong with the stock market or with the underlying business and credit structure", then added this

wise-crack: "The public is suffering from broker's loan-itis."

As the market slipped from the peak Mitchell had plenty of support. In fact, two weeks earlier Col. Leonard P. Ayres, noted statistician of the Cleveland Trust Company, had anticipated his sentiments by delivering the sage opinion that "there does not seem to be as yet much real evidence that the declining stock prices are likely to forecast serious recession in general business. Despite the slowing down in iron and steel production, in automobile output and in building, the conditions which result in serious business depressions are not present".

Even such a reliable commentator as Professor Irving Fisher, of Yale University, joined the chorus when he stated in a public address that stocks had reached "what looks like a permanently high plateau" and added that he expected to see the market within a short time a "good deal higher than it is today".

That the university authorities were uniformly wide of the mark was indicated by a statement of the Harvard Economic Research Society issued during the early stages of the ensuing panic, on October 26, to be exact, to the effect that "despite its severity, we believe that the slump in stock prices will prove an intermediate movement and not the precursor of business depression such as would entail prolonged further liquidation."

Following the early October reactions, there is no doubt that most operators, large and small alike, looked for an early recovery and a resumption of the advance to those higher levels of which Professor Fisher spoke. In fact, the Boston News Bureau confidently stated that "the recent break makes a firm foundation for a big bull market later in the year".

But the "big bull market" did not materialize. Instead came disaster in the form of an avalanche of liquidation, starting on October 23rd with over 6,000,000 shares and reaching a climax on October 29th when 16,410,030 shares changed hands. For two long weeks frenzied selling continued, carrying prices down to levels that were unbelievable in the face of quotations that had obtained prior to the break. During this period the New York Times averages for fifty leading stocks dropped from 311.90 in September to 164.43 in November, or 47 per cent; the average for twenty-five industrials fell from 469.49 to 220.95, or 53 per cent. As a whole, stock values were more than cut in half and $50,000,000,000 of paper profits were wiped out. The victims ranged all the way from boot-blacks to industrial magnates and there was scarcely a hamlet in the country in which some one did not feel the heavy hand of ruin.

Such was the burden that the inflation conspiracy laid upon a happy land.

XIX

STUFFED SHIRTS AND BLASTED REPUTATIONS

"WHOM THE GODS DESTROY they first make mad." If this old Latin proverb is founded on fact it is certain that the gods had their hands full during the halcyon era that preceded the crash, for the whole world went mad. And not all the insanity that blossomed forth during this period was confined to the man in the street. Most of all, it affected those in high places, and maddest of all the wild men who kept the pot of inflation boiling were the so-called bankers who ruled our great financial institutions.

At the head of the greatest bank in the country was not a banker but a super-salesman, who started life as a peddler of commercial paper, later became a bond salesman and ultimately found a larger field for his talents as the dominant figure in the National City Bank, of New York. More than any other individual, Charles E. Mitchell has borne the brunt of the charge that the depression was brought about through the greed and ineptitude of bankers, and he has paid a certain price, both in the loss of his fortune and in personal humiliation; but this is nothing to compare with the plight of hundreds of thousands who were led by his exhortations and example to risk all on the merry-go-round of high finance.

Mitchell was a man of masterful personality. The head of the table was always where he sat. However bizarre his proposals, his convincing manner and dominating personality invariably swept aside all opposition and he had his way. Next to Samuel Insull and Ivar Kreuger, he was probably the premier promoter of his day—a salesman who sat in the driving seat of the banker. Being a super-salesman, he undoubtedly sold himself on his own righteousness and on the soundness of his projects, but history records that they left a trail of grief and disaster that has not been equalled in any previous age. And chief of all his promotions was the National City Bank itself, which he found a substantial institution of moderate size and left a gigantic cripple, facing a write-off in its assets amounting to a quarter of a billion dollars.

Mitchell entered the National City Bank by way of its security affiliate, the National City Company, where his energy worked astounding results during the administration of James E. Stillman, who later made the front pages of the tabloids in a sensational effort to disprove the paternity of his child and divorce his wife. Failing in this, he was promptly divorced from the bank and Mitchell took his place. Followed a series of mergers, absorptions and amalgamations which finally established it as the biggest bank in America, with total resources in excess of a billion dollars, and apparently Mitchell's first dream was realized.

But this, it appeared, was merely a stepping stone to greater ambitions. In the back of his head seemed to lurk a design to dominate the banking activities of the nation, if not, indeed, of the universe. Gradually the National City Bank pushed its outposts into the far corners of the world, establishing branch offices or

agencies all the way from London to Tokio and its resources rose to hitherto unprecedented size. In the meantime, under the stimulus of this expansion, its stock soared in the market until it reached a figure of $585 a share, despite a five for one split-up. In an effort to create a broader market the bank resorted to the now familiar device of loading up its own employees, who bought the stock on a time-payment basis at high prices and later found it necessary to divert their meagre salaries to make good their subscriptions, while the bank's higher officials were relieved of the same responsibility or given access to loan funds in order to complete their purchases. In this way one vice-president was carried for the sum of $296,000, another for $345,-272. All told such loans amounted to $2,400,000. So fared the favored few on the National City's roster, while the poor clerks paid up what they owed. So far as the public was concerned, they were simply shorn, as lambs are wont to be shorn.

From this comparatively simple form of skullduggery Mitchell and his gang went on to more extensive and more complicated operations. Few of the big speculative pools failed to find a place for the bank or its affiliate, and after the inevitable distribution the public invariably held the bag, while the pool operators got out with their profits. Anaconda, Columbia Graphophone, Radio, United Aircraft and a host of minor issues were favorite mediums for this form of exploitation.

Not to be outdone by other banking institutions, National City and its security affiliate became actively involved in foreign bond underwritings and were responsible for unloading on the gullible public some hundreds of millions of these so-called securities, which in

the course of time turned out to be mere sink-holes of wealth. Came the Crash and Mitchell's world tumbled about his ears. His pools collapsed, his bond issues defaulted and National City stock hit a low of $24 per share. Mitchell himself was caught in the maelstrom and after sacrificing his private fortune, ended up with even his Fifth Avenue house and Tuxedo country estate in pawn to a partner of J. P. Morgan and Company. As a final blow, he slipped up in testifying before a Congressional Committee so far as to admit the receipt of bonus funds and other profits which he had failed to include in his income tax returns, with the result that he was promptly indicted and placed on trial in the Federal courts. At the trial he was acquitted, but not until his resignation as Chairman of the National City Bank had been demanded, and he walked out of the great institution of which he had been the head a broken and discredited man.

Less spectacular, shrewder but just as destructive in their ultimate effect, were the operations of Clarence Dillon, who built up and finally headed the great firm of Dillon, Read and Company. Like another Columbus, he rediscovered Latin America and set out to make it the hinterland of Wall Street. Starting with an issue of Brazilian 8's, he underwrote South and Central American bond issues to the tune of some two hundred millions, and most of these are now worth little more than the paper on which they are printed. First, the Brazilian issue of $25,000,000, which netted a profit of $467,125 to the firm. Then a second issue of the same amount, on which the profit was doubled. Followed $12,000,000 for the city of Rio de Janeiro, which netted the firm a little matter of $369,695; $12,500,000 for Bolivia, then $23,000,000 more, showing a combined profit of $1,-

558,219. Altogether the firm underwrote more than a billion and a half of foreign bonds at a gross profit that is almost incalculable.

But Dillon is known best of all for the Dodge deal, one of the most extraordinary pieces of financing ever conceived. The two Dodge brothers had died—largely from the effects of boot-leg liquor—and their great automobile property was kicking around the Street, looking for a buyer. The smart crowd on the "Corner", having whetted their appetites on General Motors, were open for a deal. In fact, they were prepared to offer a fabulous sum, when Dillon took the play away from them and coolly handed over to the Dodge estate his check for $146,000,000. Almost before the check had cleared, a banking group took the property off his hands and the public avidly bought up the issue while the certificates were still damp, but when all was said and done Dillon turned up with a majority of the Class "B" common stock, which held entire voting control of the property, although the public had paid for it. The transaction was a neat bit of high financing and incidentally established a precedent by capitalizing good will as the basis for a preferred stock issue, which was the form of the main offering. Later Dillon's bonus stock was exchanged for stock of the Chrysler Corporation, which sold as high as $140 in the market.

Somewhat earlier Dillon had pulled off a similar deal in an operation involving $100,000,000 of financing for the Goodyear Company. In this case he put in a managing organization, in which his firm maintained an interest that paid it a large return, but this arrangement was finally attacked by the stockholders and its abandonment forced.

In the orgy of investment trust promotion that swept

over the financial world toward the end of the pre-crash era Dillon proved to be an adept in setting up and floating such issues and they added not a little to the profits of his firm. A graphic example was the organization of the United States and Foreign Investment Corporation and its sister enterprise, the U. S. and International Securities Company. The first corporation was organized with a capitalization of 250,000 shares of first preferred stock having a par value of $100 per share, 50,000 shares of second preferred stock and 1,000,000 shares of common stock. The first preferred, along with a bonus of a share of common stock for each share of preferred, was sold to the public through Dillon, Read and Company's syndicate connections for the sum of $25,000,000, less a selling cost of $1,000,000, of which Dillon's firm pocketed $339,000. As a part of the deal Dillon and his associates acquired the entire issue of second preferred stock and 750,000 shares of the common stock for the sum of $5,100,000. In other words, the common stock cost them $100,000, or approximately 13 1/3c per share. In the rising market that followed this stock acquired a book value of $48 per share and sold as high as $72 per share on the Stock Exchange.

But that was not all. It was not long before the trust accumulated a surplus of some $10,000,000, which would ordinarily have been distributable in dividends to the holders of common stock, but Dillon and his crowd had other plans. They used this fund as a nucleus for forming a second, or subsidiary, trust, which put them in control of $60,000,000 more of the public's money. This trust, known as the U. S. and International Securities Company, was organized with a capitalization of $50,000,000 of first preferred stock, which was floated by a

syndicate headed by Dillon, Read and Company, and $10,000,000 of second preferred stock, which was bought, together with 2,500,000 shares of common stock, by the parent trust, namely United States and Foreign Investment Corporation, which was already controlled by the Dillon interests. In the final analysis, the surplus of the parent trust was used to lay the foundation for the second trust and the combined operation put the management, which consisted of Dillon and his partners, in control of approximately $90,000,000 of money contributed by the public.

In the course of the testimony before the Senate Banking and Currency Committee it developed that the partners of Dillon, Read and Company unloaded 120,552 shares of United States and Foreign common (which had cost them 13 1/3c per share) at $52 per share, to net them a profit of $6,819,000, or 28,000%. This was accomplished as part of a market operation, in the course of which the same individuals, who were also officers of the trust in question, entered into an arrangement to sell the stock of their own trust short.

Before the collapse of the market in 1929 Dillon was shrewd enough to see the handwriting on the wall and he reduced his commitments to a point where he was caught with little or no "undigested" securities on his shelves when the break came.

Dating practically from Civil War days, one of the pillars of the Street had been George F. Baker, who had been responsible for building up the First National Bank, perhaps the soundest and most conservative financial institution in the country. An associate of the elder Morgan and closely identified with most of his early financing and reorganization projects, he had acquired large equity interests in these properties and

was the largest individual stockholder in many leading industrial and financial institutions. Cautious of speech as he was, it was Baker's boast that he had never sold a stock in his life, and this dictum had no little influence on the rising market of the early Twenties. Knowing that the Old Man had unbounded faith in the industrial future and in a continued increase in equity values, an army of investors bought stocks and took them out of the market or held them for the "long pull". This, of course, played straight into the hands of the wily operators, who based their hopes upon a continuation of the upward trend. It is difficult to believe that Baker did not recognize the nature of the forces that were at work in the market. As a banker he had ample opportunity to note the direction of credit and his long experience cannot have failed to warn him of the inevitable consequences of inflation. Yet it is of record that he did not raise his voice in protest. At no time, in fact, did he even take the cautious step that Mellon took when he hesitatingly put forward the suggestion that the time had come to buy bonds. On the contrary, through a leading brokerage firm in the Street, his influence was actively exerted to prevent liquidation and, as late as the fall of 1929, to disseminate the impression that the Bull Market was just getting under way. As a result many wise investors who recognized the inherent dangers in the situation and were sorely tempted to sell held on, to their sorrow, and ultimately saw their millions in paper profits disappear like a mirage, leaving them shorn and impoverished.

As the era approached its end, Baker was a very old man; he was entering the nineties, in fact, and this may have clouded his judgment, but there is no reason to doubt that he was used as a stalking horse by the

younger and more conscienceless element which directed the course of events. Like the "greatest Secretary of the Treasury since Alexander Hamilton", he emerged from the crash lacking much of the prestige that surrounded him in earlier days and poorer by some hundreds of millions. If not directly chargeable with a share of the responsibility for what happened, he became at least a pathetic figure and a living illustration of a man who had outlived his times.

But Baker's bank kept its skirts clean. It possessed a security affiliate, like other big banks—the First Securities Company. In fact, it set up the first institution of this sort, but its affiliate took no part in the nation-wide effort to swamp the investing public with securities of doubtful value. It had no distributing organization. It was not a factory but functioned solely as the repository for investments which the bank itself could not properly hold under the banking laws.

Baker was not alone in his misjudgment of the financial and economic maladjustments that underlay the crash and led to the subsequent depression. He had such good company as the Rockefeller interests, who offered to buy 1,000,000 shares of Standard Oil of New Jersey at the bottom of the break in a vain effort to stem the tide of liquidation and followed this up with a hundred million dollar mistake in 1929, when they undertook the greatest real estate operation of all time in building Rockefeller Centre, now better known as Radio City, in New York. It is said that this gigantic project never met with the approval of old John D. Looking down from the vantage point of his ninety-odd years, the old man expressed the opinion that the family had made its fortune in oil and they had better stick to it, but young John D. was looking for an outlet for the

family's surplus funds and decided to go ahead despite his father's warning, with the result that the estate was forced to borrow money for the first time in its experience. All told, it is said that the Rockefeller fortune was cut in half by the lack of vision of its managers during the period of the depression.

But not all of the Rockefellers fared so poorly. Percy Rockefeller—son of John D.'s brother William—is reputed to have been right on the market at all times and when the speculators were pushing it sky-high he shrewdly sold stocks short and accumulated profits which established his personal fortune almost on a parity with that of the Rockefeller estate. It is certain that he maintained his short position well into the Thirties and had no cause for regret.

One of the brighter lights of the banking fraternity who contributed his full share to the debacle of 1929 was Albert H. Wiggin, who presided over the destinies of the Chase National Bank. Coming from Boston originally—where he learned the trade of the banker and picked up a knowledge of high finance which he was to put to use later in Wall Street with disastrous results to investors—he took a leading part in the transfer of American dollars to Germany and other impecunious foreign creditors, involving his bank to the extent of $60,000,000 or more and placing a burden of many millions more on the shoulders of American investors through the flotation of foreign bond issues by the Chase Securities Corporation. A leader in the new school of salesmen-banker, Wiggin built up a chain-store security selling organization which was second only to that of Mitchell and the National City Bank, and like Mitchell he paid the penalty for his sins by the loss of his job. Later the Chase National Bank passed into the

control of the Rockefellers through a trade involving the surrender of their interest in the Bankers Trust Company—valued at $170,000,000—and absorption of the Equitable Trust Company, and its affairs are now in the capable hands of Winthrop W. Aldrich, brother-in-law of John D., Jr., and originally a Standard Oil lawyer. Wiggin's personal operations, undertaken largely on the credit and at the risk of his bank, were undoubtedly the gravest scandal disclosed by the investigation conducted under the auspices of the Senate Banking and Currency Committee.

Long years ago J. P. Morgan the elder himself issued the ukase—"Never sell America short", and it passed immediately into the gospel of the investor. In later times, under the influence of investment trust managements, elaborate arguments were built up to establish the long-term investment value of common stocks. During periods of inflation it is obvious that the appeal of equity values is irresistible and this propaganda contributed directly to an ascending scale of values. "Buy stocks and hold them for a long pull", said self-appointed advisers to the uninformed investor and their counsel was confirmed by weighty pronouncements from the seats of the mighty. The thought that stocks were ever to be sold never seemed to occur. It was unthinkable to the deluded investor and positively abhorrent to the element that was interested in putting the market up. During the seven-year period ending with 1929 some hundreds of thousands of shares of stock were taken out of the market annually either by individual investors or by investment trusts. Both were to have a rude awakening.

From time immemorial every period of inflation has ended in panic and depression. Were the minds that

ruled Wall Street so obtuse that they failed to recognize this fact? Were bankers so swept away by the new school of thought that they deliberately ignored the experience of centuries? It is to be doubted. Back of the plight in which the nation came to find itself was greed—nothing more or less. Greed for commissions that came out of the boiling stock market. Greed for bankers' profits that were to be got out of the sale of doubtful securities to a hungry and credulous public. A deep-laid plan to push values to a point where collapse was inevitable and the man with money—otherwise designated as the banker—would find himself in a way to take over on his own terms the man who was over-extended. As it happened the movement was allowed to go too far. It carried to a point where the repositories of funds themselves became involved and the moneyed interests were unable to find the means that were needed to take advantage of the lush bargains which adversity had created. The Great Conspiracy defeated itself.

But who is to be held responsible? The gullible investor who went wild with dreams of untold riches, or the far-seeing, avaricious minds that laid the plot? That some of these apostles of greed were victims of their own designs is some measure of justice, but it does little to mend the broken lives and crushed souls of the millions who kept the pot boiling.

XX

THE HOAX OF THE CENTURIES

AS FAR BACK as 1922, when American business was entering upon the first stages of recovery after the post-war depression and the bankers were casting about for outlets for the investment funds which were then in process of accumulation, a mysterious, glamorous figure appeared in Wall Street. Heralded as the financial genius who had whipped the match industry of the world into shape and made it the basis of a gigantic monopoly, Ivar Kreuger was well fitted to win his way into the inner circles of finance, where a new race of international-minded but none-too-careful bankers were making ready to take the places of the solid, hard-headed financiers of the pre-war era. Shrewd, well-spoken and brimming with self-confidence and personal magnetism, he made short work of Wall Street and returned to Sweden with assurances from one of the leading banking houses of New York and Boston, Lee, Higginson and Company, to join him in his grandiose undertakings. In the course of the next ten years this casual visit cost the American investing public some $250,000,000 and led Kreuger himself to a suicide's grave.

Superman and weakling, gentleman and swindler, gambler and builder, Ivar Kreuger was probably the strangest paradox of all time and his operations have

had no parallel since the South Sea bubble of John Law. How he managed to conceal the true nature of his activities and impose his colossal schemes upon an unsuspecting world can only be explained by criminal lack of caution or unexampled stupidity on the part of the bankers with whom he had to deal. He handled them like schoolboys while he built up a financial empire on the basis of fraud and deceit.

Ruler of men as he was, Kreuger was not born to the purple. The son of middle-class parents in the little Swedish town of Kalmar, he broke away from family traditions early and turned up in Chicago, Illinois, in 1900, as a real estate salesman. Not making a great success in this line he took ship for Vera Cruz, where he had obtained a job with an engineering firm. For some years he drifted around Latin America working on construction jobs and finally arrived in New York, where he went to work for the Fuller Construction Company. As an engineer he had a hand in building the Flatiron Building, Macy's, The Metropolitan Life building, and the Plaza and St. Regis Hotels. Following this he headed for London, where he found work with a building concern, which sent him to South Africa. There he went into business for himself and promptly went broke, but made his way back to Canada and finally to New York again, where he secured a job with a construction firm and took charge of the erection of Syracuse University Athletic Stadium, in recognition of which the University conferred an honorary degree upon him in 1930.

By this time Kreuger, who was now twenty-seven, came to the conclusion that he had knocked around enough and decided to return to his native land, where he felt there was a need for his talents and experience. A year or so later we find him back in the construction

business and located in Stockholm, where he had formed a partnership with Paul Toll and the great firm of Kreuger and Toll got its start. They began business with a capital of only 10,000 kroner—$2,666 at the then rate of exchange—but it was not long before the partnership had outgrown its original form and in 1911 the firm was incorporated with a capital of one million kroner. From this point on its record was one of constant expansion, both in the scope of its interests and capital, until with its affiliated enterprises it represented a total investment of about a billion dollars. Throughout Kreuger was the guiding genius and Toll played a passive part.

Kreuger's family had been in the match-making business for some generations and about this time had united three or four small plants which they owned in a single concern. In its origin and development match-making was largely a Swedish industry. The business was divided up into many small plants and one large concern, which was the outgrowth of the consolidation of six sizeable plants. Turning his attention to this industry, within a short time Kreuger succeeded in merging the seven leading concerns in the Kalmar district and this laid the foundation for his later operations. Within five years he took over the older and larger group and so laid the basis of his claim to the title of "Match King". Out of this combination grew the Swedish Match Company, which acquired the match business of Kreuger and Toll, leaving the original firm to function largely as a holding company, but in this capacity it was a close rival to the match company, both in point of capital and in the broad scope of its activities. Both companies paid large dividends from the start and with Kreuger's marvellous persuasive powers this served as a tool with

which to raise some half billion dollars or so within the next ten years.

When Kreuger paid his historic visit to Wall Street he was already a mythical figure. Reputed to be possessed of extraordinary powers of organization and of persuasion, he was surrounded by an atmosphere of mystery which lent cubits to his height. At that time he had already started his program of vast loans to European Powers, in return for which he obtained the matchmaking concessions, or monopoly, in their dominions. Ultimately he supplied $384,000,000 to various governments in this way and so secured a virtual monopoly of the match business outside of America. In doing this, as it later developed, he made two mistakes. First, he loaned the sum of $75,000,000 to France at a five per cent interest rate and France promptly turned around and used the funds to pay off an eight per cent loan made through J. P. Morgan and Co., much to the disgust of that great banking house, which hated to be deprived of its liberal interest return and so laid up a healthy grudge against Kreuger. Late in 1929 he also agreed to loan Germany $125,000,000 and it was this transaction that brought about his undoing.

Naturally it is to be assumed that these millions which Kreuger handed out as carelessly as cigars had to come from somewhere. At the start a considerable part came out of the Dutch and Scandinavian investment markets, for Kreuger was cosmopolitan in his favors, but the drain on these markets finally proved too great and Wall Street became the ultimate victim of his vast financial schemes. Something between two hundred and fifty and three hundred million dollars were dumped into the Kreuger pot during the years of plenty that preceded the depression and most of it disappeared as completely

as if it had been consumed in the fire that kept the pot boiling.

Just how this occurred is an interesting and intricate story.

With the apparent purpose of concealing his tracks, the Match King finally built up both Kreuger and Toll and Swedish Match, along with their sister enterprise, the International Match Company—which was created for the special benefit of American investors—into a vast conglomeration of corporations and holding concerns, whose ramifications even a Philadelphia lawyer would find difficult to ferret out. In so far as information has come to light since his death, the record briefly is this—and it undoubtedly shows Kreuger up as the greatest confidence man of the ages:

At the time that Kreuger had his first luncheon meeting with Donald Durant and Frederick W. Allen, partners in the firm of Lee, Higginson and Company, in 1922, the Swedish Match Company was well along the road to the position that it later acquired when its share capital ultimately attained a total of 360,000,000 kroner, its reserves 200,000,000 and its bonded debt 60,000,000. It dominated the match industry of the world with 250 plants in forty-three countries and monopolies in twenty-five countries. It made seventy-five per cent of all the matches sold throughout the world. Back of the Swedish Match Company was a network of corporations, some real and some "phony", and control of the company lay with Kreuger and Toll. In addition to this Kreuger and Toll owned, or came to own, the Swedish Pulp Company—most important European producer of sulphite and sulphate pulp (required in making matches); the Capital Real Estate Company, or Hufvudstaden, owning eighty-seven large buildings in the

leading cities of Sweden, with a book value of 71,000,000 kroner; a one fifth interest in the Grangesberg Oxelosund Mining Company, a valuable iron mining property controlling about two billion tons of rich and easily workable iron ore, together with minority interests in two Stockholm banks and in the Banque de Suede et Paris, in Paris, and the N. V. Hollandsche Koopmansbank, in Amsterdam. When Kreuger waved this list of his interests before the bankers and told the story of the upbuilding of his properties, as only he could tell it, they were duly impressed and appeared eager to get in on this "good thing". As he later told a Swedish friend, "You Swedes are blockheads", he said, "You haggle about giving me money. But when I get off the boat in New York I find men on the pier begging me to take money off their hands." Following his profitable stay in the Street, Kreuger returned to Stockholm, stopping off at London on the way, in order to make the acquaintance of the British partners in the Lee-Higginson firm, and promptly set out to "rig the game" for the benefit of his American bankers.

The first step in the confidence game was to propose an entirely new corporation, to be known as the International Match Corporation, which would act as the repository of funds to be derived from American financing and so to lend an appearance of security. But the security was one of appearance only, for from the start Kreuger laid down an arbitrary rule that he, and he alone, should have the power to shift assets from one concern to another as exigencies required. That the New York bankers agreed to this can be explained only on the ground that they were so captivated by his personality or so eager to get a share of the banking profits which seemed to be in sight, that their good judgment

was wholly suspended. As it developed, out of $148,-000,000 that was paid into the International Match Company, $144,500,000 found its way into the treasuries of Kreuger's other companies or into his own pockets and when the corporation went into bankruptcy in 1932 it was practically without assets.

About the time that the International Match Company made its appearance Kreuger also organized a "secret subsidiary", the Continental Investment Corporation, which enters into the record in due course. For reasons that later dazzled the bankers this corporation was domiciled in the little State of Lichtenstein, the home of 9,759 people, mostly peasants, and 747 corporations which were mainly interested in tax dodging.

The International Match Corporation started off with a capital of $28,000,000. As the proceeds of this financing were made available, the function of Continental became apparent. Kreuger convinced his associates that large taxes would be avoided, by reason of the lax laws of the State of Lichtenstein, through using the "dummy" corporation as a depository for International's assets and surplus and the funds were promptly transferred to this account. Inasmuch as Kreuger's companies controlled Continental entirely, the International lost all knowledge of what happened to its assets after they passed into the subsidiary's possession. All that it had was a book-keeping credit. The Continental rapidly developed into a sewer into which International's cash and securities were dumped as fast as they came in and then parcelled out by Kreuger as he saw fit. In this way, or by even more dubious methods, International Match Corporation got rid of some $150,000,000 during its eight-year career.

Aside from the International Match financing, Amer-

ican investors provided Kreuger with funds to the extent of some $50,000,000 on Kreuger and Toll debentures, for which, however, they had only themselves and their bankers to blame, for the indenture was drawn in such a way that it practically invited theft. After describing the deposited securities the indenture provided for the substitution of:

"Bonds or notes issued or guaranteed by sovereign states, provinces, municipalities or other governmental subdivisions duly powered to issue or guarantee bonds or notes but in no case where the population is less than 300,000.

"Bonds or notes issued or guaranteed by mortgage-banking institutions (in which the company may, but need not, have an interest) and secured by mortgages on agricultural or city property or entitled by special law to priority on such property, and

"Shares in railway or other companies on which dividends at a minimum rate or otherwise are guaranteed by sovereign states."

In other words, the questionable bonds of Russia, Mexico, China, Peru and Bolivia, or the German Forced Loan of 1922 (worth about $5 a million), or the equally worthless Mexican Railway Issues could be substituted for any of the original collateral. When Kreuger finished manipulating this collateral some $59,000,000 (par value) of valueless securities remained on deposit and he had abstracted every bond that had a market value.

Incidentally this issue of debentures, worthless as they were, was offered to American investors by a syndicate including such notable houses as Lee, Higginson and Company, The Guaranty Company (security affiliate of the Guaranty Trust Company), the National

City Company (security affiliate of the National City Bank), Brown Brothers and Company, Dillon, Read and Company and the Union Trust Company, of Pittsburgh. According to the offering circular legal details were approved by Ropes, Gray, Boyden and Perkins, of Boston, and Carter, Ledyard and Milburn, of New York. Is it any wonder that the befuddled investor was taken in?

For nine long years the Mighty Man sailed along on the crest of the wave, mulcting the gullible public and pulling the wool over the eyes of the still-more-gullible bankers. When they got up courage enough to ask him questions he evaded them. If they asked for information he blandly refused it, generally on the plea that it involved the disclosure of matters which were "state secrets" between himself and the governments with which his monopolies dealt. In all that time there was no audit of the books by an independent auditor. If figures were given they were such figures as Kreuger or his creatures supplied. And all the while his reputation mounted. The sum of his achievements grew. First, a thirty-two million dollar loan to Poland. Then the seventy-five million dollar French loan. At last the hundred and twenty-five million dollar German loan. Fatal error!

As Kreuger's name became mightier in the realm of finance, statesmen turned to him for help and guidance. His suave, convincing manner was credited with having blocked the failure of the Young loan negotiations. He assumed part of the financial burden on behalf of his companies and Paul Renaud got up on the rostrum of the French Senate and publicly thanked Kreuger for his part in contributing to the solution of international problems.

But this was the high-water mark in his fortunes. From this point on his star began to descend and the end was sudden and tragic.

It began with the German loan and the Morgan enmity added the finishing touch. When Kreuger concluded his negotiations with the Reich in the fall of 1929 the skies were still clear, but he reckoned without the market collapse that occurred at the end of October. Feeling the security of his position and relying on the ability to raise money which had never failed him, he went ahead and agreed to advance Germany the sum of $125,000,000, without completing his own arrangements for the money. Before he could arrange his financing the bubble burst in Wall Street and he faced a payment of $50,000,000 on August 30th of the following year, with $75,000,000 still to come.

Assuming that the panic would blow over, Kreuger was not immediately concerned. In fact, he took a "long" position on the securities of his concerns, which ultimately made a further drain on his resources. Despite this, however, he met the 1930 payment by switching around the assets of his various companies, but this withdrawal just about scraped the bottom of the till. In January, of 1931, he managed to float a $50,000,000 gold debenture issue for the International Match Corporation, but this still left him twenty-five or thirty millions short on the final payment. Kreuger was still banking heavily on a turn in the market, but as the year wore along conditions got steadily worse and he became desperate.

In this extremity the Match King committed the greatest crime of his career. Calling in the representative of an engraving company, he ordered him to lithograph an assortment of Italian Bonds, or treasury notes,

to the equivalent of some £28,000,000, casually remarking that they would be sent to Italy for signature and authentication. But the bonds never went to Italy. Instead, Kreuger forged the signatures of the Italian officials with his own hand and then distributed the bogus bonds among his various companies. Some nine millions went into the treasury of Kreuger and Toll. Fourteen millions went to the Continental Investment Corporation to replace the vast sums deposited to the credit of International Match, which Kreuger had already abstracted. But this did not give him the cash funds that were needed to complete the German payment. It merely dressed up the balance sheet, but on the strength of this showing he secured a loan of $30,000,000 from one of the Swedish banks in which he held an interest and this enabled him to meet the payment when it fell due on May 1, although it exhausted both his cash resources and his credit.

But this was not all. On July 1 interest on his debentures to the amount of some millions was due and he had to find money for this purpose, as well as for operating capital. The noose was tightening and as a last resort he opened negotiations with the International Telephone and Telegraph Company—a Morgan concern—looking toward the sale of his holdings in the Ericsson Telephone Company, a gigantic Swedish concern, in which Kreuger and Toll had acquired a controlling interest. A deal was arranged and Kreuger agreed to exchange 600,000 shares of Ericsson Telephone for 400,000 shares of ITT., but immediately sold back his ITT. for $11,000,000 in cash, which took care of his debenture interest just in the nick of time. But a string had been tied to the International Telephone deal. The Morgan interests insisted that the final con-

summation of the transaction should be subject to an audit.

It took some months to get this audit under way and in the meantime Kreuger was under constant pressure for funds. Through his American bankers he managed to get a bank loan of $4,000,000, but this was not enough. Returning to Sweden he negotiated a loan of 40,000,000 kroner on a mining property which he held, but unfortunately the mining stock was not in his possession. It had been used as collateral for another loan. In order to free the stock he coolly lifted $50,000,000 of German bonds that had come to International Match through the German loan transaction and used them to take the mining stock out of pawn. Later he tried to cover the transaction by transferring the equivalent in forged Italian bonds to the International Match account.

During this period the stocks of all the Kreuger companies were getting a steady pounding in the market and many unfavorable rumors were afloat, but the situation did not really come to a head until the Morgan auditors got busy. Within a few days they discovered an item of 27,000,000 kroner listed as "Cash" which actually consisted of amounts due from other Kreuger companies and the "fat was in the fire". The Morgan interests cabled for an explanation. Kreuger was unable to give a satisfactory one and the Morgan interests called the deal off and demanded repayment of the $11,000,000 cash advanced. The news got around in Wall Street and Kreuger hurried across the ocean to quiet the furor. Naturally his American bankers were upset and for the first time they began to ask pointed questions. Unable to answer their questions, Kreuger "went to pieces". So they all boarded a steamship and set out for Stockholm. On the way the bankers determined to have

an audit of their own and a prominent firm was engaged for the task. On reaching Stockholm Kreuger played for more time and finally induced all to go to Paris, where he was to meet his own auditors.

By this time the condition of all companies was critical and Kreuger's own people were frightened. They realized that there had been irregularities and they were worried about their own hides. When they met Kreuger in Paris they made it plain that he could not depend upon them further. His ship was sinking. As a last straw one of the bankers asked him why he did not raise money on the Italian bonds which Kreuger said he held. Kreuger dodged. The banker offered to open negotiations with the Italian Government for their repurchase. Knowing that the bonds were forged, there was nothing that Kreuger could say. The game was up.

After this meeting Kreuger went out and bought a revolver. It was a 9 MM. army-type Browning and the next morning it was found by the side of the bed on which he lay dead with a bullet-hole through his heart.

XXI

JUST AROUND THE CORNER

IN THE COLD, gray light of the morning after that day of crashing values in October, 1929, when the Big Bull Market definitely and finally came to an end, there were few who realized what had actually happened. The average man was bewildered by the quick succession of events which had swept his world away. Margin call upon margin call, ten-point breaks between sales, stock tickers overworked—an hour, two hours behind—vanishing paper profits, fortunes swept into the discard—these things he could understand. But what did it all portend? Was it the end of an epoch or just another shake-down in values? Could it be that the new school of economists were wrong? Was prosperity to have an end, after all?

Fortunately, there was no lack of prophets—market letter writers, public officials, bankers and business leaders—false prophets, one and all, but they were quick to minimize the disaster and reassure an anxious world, pointing with pride to the vast resources of this great nation of ours and the energy of its people. "Whatever happens," they united in saying, "the country will not go to the dogs". In a hurried effort to cover up the facts Dr. Julius Klein, Assistant-secretary of Mr. Hoover's pet Department of Commerce, announced that only

four per cent of the population was affected, and a high official of the Federal Reserve System went on record with the unqualified statement that the break in the market "would not prove disastrous to business and the prosperity of the country".

There was much more of the same tenor. Leaders in the business and banking world expressed such sage opinions as this: "The market was overextended and freed itself of a tremendous amount of margin trading", or "Any corrective movement in the market was not to be regarded as symptomatic of the trade movement," or "The decline in stocks will have no effect on the fundamental soundness of business conditions," or "The readjustment in stock prices will be helpful to the business situation". Blissfully ignoring the fact that business had been in a pronounced state of decline for four or five months before the break, they continued to express themselves in terms of an era of growing prosperity which had suffered an interruption, a minor set-back,—that was all.

As the crash fell into the background, these self-anointed prophets professed to discover increasing signs of recovery, evidences of rehabilitation, proofs of the fundamental soundness of conditions (a favorite mouthful), indications of the capacity of business "to surmount all obstacles". It took but a brief flight of the imagination to convince oneself that we were back again in the initial stages of another "boom" period, with an even greater bull market looming ahead. Many acted on this assumption—to their cost.

As the high priest of the New Economic Era, President Hoover was among the first to register his faith in the future. "Within sixty days", he announced, conditions would return to normal, and took immediate steps

to speed the return. Conference after conference was held at the White House. Financial and industrial leaders were called in; even the partners of J. P. Morgan and Company became open visitors. New commissions were set to work, as a result of which emerged a comprehensive scheme of public works and an ill-advised building and spending program, sponsored by the public utility and railroad interests—and reams of publicity. But the only part of the program that got into actual operation within the time limit set by the President was the last-named. For a time it looked as if we had set out to talk our way back into prosperity, and at first it seemed that the plan might succeed. For, slowly and painfully, the market gathered itself together and resumed its upward march. Hesitatingly hope appeared here and there, courage struggled to its knees, optimism feebly raised its head.

In Wall Street messenger boys and margin clerks were called back to work. Vacant chairs disappeared in customers' rooms and the buzz of hopeful comment was heard again. The pool managers and manipulators took out their old tricks and dusted them off. Ivar Kreuger was able to raise some needed millions in a new flotation. Insull floated his investment trusts. Wiggin unloosed a new flood of General Theatres Equipment Debentures and completed arrangements to take over Fox Film. It looked as if the worst was over—but not for long. For around the corner was not Prosperity but the Four Horsemen, led by a new recruit in the form of Depression.

In President Hoover Big Business had attained its supreme objective—the election of one of its own kind as head of the nation. It is true that there were incidents in his business career which required explanation. In

fact, it was said in certain quarters—which may not have been entirely unbiased—that he was a promoter rather than a businessman, and the merit of some of his promotions was not above question. But there is no doubt that he was a devotee of Big Business and subscribed wholeheartedly to its tenets. With his election "master-minding" reached its heights, as exemplified by the Great Engineering Mind that was to lead us into a new world, where there was to be a "chicken in every pot"—two chickens, many thought. That he failed was a personal tragedy, as it later came to be a national catastrophe. For in failing to avoid the consequences of the market collapse and the counsels of folly that led up to it, he had done something more than plunge the nation into depression. He had destroyed its faith in its leaders and this led to a waning confidence in its institutions.

The first shock came with the so-called secondary reaction in the market, which occurred during the late spring months of 1930. Just as the President's sixty-day time limit was about to expire the market broke again and the averages declined some 26 points, or more than 10% within a month, followed by an even more drastic decline, carrying into the depths a small army of traders who had marshalled their remaining resources in a vain effort to "come back". On this occasion the results were even more disastrous for these fatuous souls than the Big Break had been, for when margin calls went out there were few who could respond. Their tills were empty. They had come to the end of their resources. Rightly or wrongly, they blamed the false prophets of recovery for their plight and gradually developed a deepening sense of wrong, the full force of which was

to be vented on the President when he came up for reelection.

Mr. Hoover was ready, of course, with a bagful of alibis. First, there was the unfortunate downfall in agricultural prices, which had affected the whole world —although, it may be said in passing, that this was a phenomenon with which our farmers were not unacquainted. Following this came the droughts, which fell with sterilizing effect on the Mississippi Valley states, and then a further decline in the value of farm products, blamed this time on dumping by Russia. With each of these occurrences the indices of business dropped lower; the stock market continued its downward course. By mid-winter trade had reached the vanishing point and unemployment was more than a spectre—it was a problem. Five or six million people were out of work and the "apple man" stood on every street corner.

But still it was not to be admitted that the nation was in the clutch of a depression. To do so was tantamount to abandoning the new economic philosophy with which both Wall Street and Washington were imbued. With one accord they set out to cover up the facts. Just as they had built up a myth of prosperity, they now attempted to create a myth about the collapse. Speculation in the Stock market was the cause of all our troubles, according to the classic explanation, which found favor in banking circles. Everybody was in the market, they said, —jumping to a conclusion which was far from fact, since not more than a million were involved at the peak of the Bull Market—and their losses had destroyed purchasing power. Why blame Mr. Hoover? Why blame the bankers? Why blame Wall Street? Let the speculators take their losses and the situation would

correct itself. Depression? Bah! We were already well on the way to recovery.

Doubtless there had been some decrease in purchasing power, as the apologists for the Administration contended, but the cause was more deep-seated than the stock market. Summed up in four letters, it was D-E-B-T, foisted upon an ignorant and deluded world by the Great Conspiracy, which had made it easy to obtain credit, almost unavoidable to keep out of debt. When Wall Street and Washington joined hands in the move to create an unprecedented inflation of credit they signed the death warrant of prosperity and plunged half the nation into ruin. Slowly this fact began to appear and with it the specious explanations of the banking and political elements fell into disrepute. They were shown up as charlatans and their studied efforts to conceal the facts left them without a shred of standing in the public mind.

Roughly speaking, the depression divides itself into two grand phases—a first, or preliminary, stage, which set in about the middle of 1930 and carried on until mid-summer of the following year, culminating in the Hoover Moratorium, which stimulated false hopes of recovery for a brief spell and then turned out to be a "dud"; and a second, or final stage, during which the depression grew in intensity and the palliatives applied by the Administration uniformly proved ineffectual and left the nation in a state of collapse as the banking system failed and the Hoover regime came to an inglorious end. There was also a six months' prelude which was spent mainly in whistling to keep our courage up.

As the first severity of the depression was about to make itself felt President Hoover was still full of confidence and announced late in May, 1930: "While the

crash took place six months ago, I am convinced that we have now passed the worst and with continued unity of effort we shall rapidly recover. We have undertaken to stabilize economic forces". Bear in mind that at this time liquidation had not actually set in and overhanging business was a vast mass of frozen credit, which practically destroyed the loaning power of banks. We had not begun to go through the wringer.

Possessing this sublime faith in quick delivery from the dangers that beset us, nothing was done, little was attempted, to alter the course of events. Developments moved on to their logical conclusion and the first symptom of disorder was increasing unemployment. From April 30 to the end of the year the number of men out of work jumped from 2,500,000 to 6,000,000. "Unfortunates", they were dubbed, without effort to distinguish between ordinary ineffectives and economic outcasts who are the by-products of industrial decay or maladjustment. Adopting the characteristic attitude of organized charity, every effort was directed toward helping these victims of the times to help themselves. It was important not to spoil them, according to the orthodox view. So a much-advertised movement was started to "Give a job". We were exhorted to find some job around the home or plant which could be given to the man out of work. Help the "down-and-outer" was the compelling motive. In many communities drives were put on to ease the situation. Apple-selling was universal, with celery or oranges taking the place of apples on occasion. But these were mere poultices. They could not affect the real problem, as unemployment was increasing from month to month and nothing was being done to correct the forces of destruction. At last real suffering and misery began to appear during the winter and the question

of relief was brought definitely to the fore, which in turn raised the issue of the "dole"—hated word among the conservative-minded, for it opened the way to unemployment insurance, old-age pensions and all manner of evils that had put a burden on the backs of tax-payers abroad. Unemployment was essentially a local problem, said the old school, fearing the consequences of national legislation. Keep it local.

The President set his face resolutely against any form of relief that savored of the dole and quickly became involved in a dispute with Congress which threatened the whole program. The situation came to a head in connection with the proposals advanced to relieve the victims of the Arkansas drought. This was a major disaster and the President immediately called on the Red Cross, which failed entirely to grasp the real gravity of the situation. Hastily rejecting the offer of a congressional appropriation, the organization insisted instead on putting on one of its customary "drives", estimating that at the most a meagre $10,000,000 would be sufficient to relieve the situation, which was far from the actual requirements. "No dole", said the Red Cross, "We will rely on private charity", and made its appeal to the Heart of the Nation. After a good deal of effort they got their $10,000,000 and it was swallowed up almost overnight, without making any real impression.

Wholly in sympathy with the objects and methods of the Red Cross, of which he was the titular head, the President was outspoken in his attitude. "This is not an issue", he said, "as to whether people shall go hungry and cold. It is a question as to whether the American people will maintain the spirit of charity and mutual self help". In the end the issue narrowed down to

whether the Federal Goverment should afford relief directly by gifts of money or goods or by loans to agriculture, which was the form that relief finally took, except as to the initial aid provided through the Red Cross.

In the Relief Bill, as finally passed by Congress, we find the inception of the entire program for fighting the depression as it was developed by the Administration, which set itself unqualifiedly against outright contributions and adopted instead the indirect process of providing credit for industry, which in due time might trickle down to the victims of the depression through a general restoration of prosperity. It was this principle that led to the organization of the Reconstruction Finance Corporation some months later.

In a broad sense the question of industrial relief was bound up with the question of wages. From the start it had been the policy of the Hoover administration to maintain wages and in this purpose it had the support of industry, but as it developed this meant wage rates, not full pay to the worker. Facing a declining demand, it is obvious that manufacturers could not keep their plants running on full schedule and they were forced to a decision between wholesale discharges and a reduction in working hours, with a corresponding loss of pay. Many workers were let go to swell the army of the unemployed, but on the whole the trend was toward part-time work, so that the general problem of unemployment was confused by a great body of workers who were getting some pay but in many cases not enough to meet the costs of subsistence. Following the lead of the President, industry as a whole set its face resolutely against a cut in wage rates and no general reduction in wage scales occurred, in the key industries at least, such as steel, until

dividends had been suspended. Ironically one of the first voices raised in opposition to this policy was that gravy-bespattered banker who had profited so unconscionably at the expense of his bank, A. H. Wiggin, head of the Chase National Bank. "It is not true that high wages make prosperity", he stated. "Instead prosperity makes high wages", adding that he thought "many industries may reasonably ask labor to accept a moderate reduction of wages, designed to reduce costs and to increase both employment and the buying power of labor".

Over against this was set the opinion of enlightened employers such as James A. Farrell, President of the United States Steel Corporation who opposed wage reductions in this wise: "Oh, no, wages in the steel industry are not coming down; you can make up your mind to that fact. If you are going out to sell your goods and eliminate your profit and expect to get it out of the man in the mills, you are very much mistaken."

The solution offered by this type of leader was to keep prices up, but economic forces were stronger than they and as the price level was maintained in any given industry, consumption sagged, production was necessarily curtailed and unemployment resulted. In the end existing wage scales were abandoned and a general movement toward lowered production costs set in.

It was in this state, with wages coming down and the army of unemployed growing in numbers, that the country came to the spring of 1931. Valuable time had been consumed in discussion but nothing of a constructive nature had been accomplished. The President was bent primarily, it appeared, on saving his face and he busied himself in looking about for another bug-a-boo. He found it at last in "short selling". More than half con-

vinced that Wall Street was antagonistic to his program, he lent a willing ear to Congress when it suggested that the short interest in the market was retarding recovery and approved a committee investigation of short-selling practises. The inquiry got under way with a good deal of fanfare but uncovered nothing of moment and when it turned its attention to the manipulations on the "long" side which had led up to the break Hoover speedily lost interest and it was not long before the investigation was called off.

Doubtless there was a large short interest in the market during the early part of 1931, as there has been at various times since, but "bear" operations have had little effect on the course of the depression. The seeds of the condition in which the country found itself were sown far back during the era of credit inflation which set the seal of doom on lasting prosperity. That the President failed to recognize this fact is proof either of his lack of understanding of the economic forces at work or of wilful refusal to admit the facts.

But the do-nothing policy to which the Administration was committed now came face up against world events which called for decision and action, for the Central Powers were again in serious financial trouble. Deprived of the aid which they were in the habit of getting from abroad, they faced a crisis which resulted in the suspension of the Credit Anstalt Bank of Austria and left Germany on the brink of disaster. Further reparations payments were out of the question and this meant in turn a suspension of payments on allied debts. Something had to be done and President Hoover did the only thing possible under the circumstances. He proposed a moratorium of one year on all international debts.

But the logical and wary French people were not ready to accept this boon to their German neighbors without question or reservation. They played for delay. They haggled and bargained and when an accord was finally reached after some weeks of discussion the measure had lost much of its psychological effect. The bloom was off the peach. The movement had lost its impetus and straightway the market headed into another decline. This time it was to be a real "bear" market carrying downward with the averages all hope of immediate recovery. The big "shorts" went short again and it was said that the Percy Rockefeller and Danforth interests cleaned up tens, if not hundreds, of millions, while all the indices of trade hit new lows. Mr. Hoover was shocked and resentful. Again he was paralysed into a state of inaction and in this condition the first phase of the depression came to an end.

But, by this time—the Fall of 1931—there was no longer doubt that the country was in the throes of depression, and such an one as had never been encountered before in all experience. Even Mr. Hoover was ready to admit this fact. Prosperity was no longer "just around the corner".

XXII

GOING THROUGH THE WRINGER

IF THE initial stage of the depression may be characterized as a period of Hope Deferred its later phase may be rightly called a period of Black Despair. For at last it was realized, even in Washington, that we were in the grip of a business and financial crisis which had never been equalled in severity within the memory of living men.

Trouble started abroad and at first England bore the brunt of it. Heavily involved in credits to the Central Powers British bankers faced a devastating loss when Germany and Austria collapsed. As was to be expected, there was a rush for gold and heavy withdrawals from this country followed. France was less severely involved but as a precautionary measure likewise began to call her gold back and the same movement had been under way in the Central Powers since the beginning of 1931, when the first signs of stormy weather appeared. Up to May 1 the Federal Reserve System had lost some five hundred millions in gold to foreign countries and later President Hoover issued a campaign statement to the effect that we had been within two weeks of going off the gold standard, but Senator Carter Glass questioned the accuracy of this statement and quoted figures

which made it appear that the president's assertion was little more than a political scarecrow.

But, difficult as our own position was, that of England was growing desperate. In August American bankers joined with international bankers in extending a credit of $400,000,000 to England but it did little good and before the following month had ended England abandoned the gold standard. This was the first serious break in the solid gold front since the stabilization of currencies after the war and it had serious repercussions over here. With his back to the wall the President decided that something had to be done. He called a conference of bankers at the White House which brought forth a proposal to establish a $500,000,000 national credit institution for the purpose of rediscounting frozen bank assets. The plan met with general approval and the National Credit Corporation was launched in October, but the corporation was essentially an emergency institution and it was superseded by the Reconstruction Finance Corporation shortly after the first of the year.

In the meantime, apparently despairing of help from the administration, the railroad interests decided to set up a credit agency of their own, with $100,000,000 to $125,000,000 capital, for the purpose of extending loans to the weaker roads against increased revenues to be derived from higher freight rates sanctioned by the Interstate Commerce Commission. This was done in December but its functions likewise were soon to be taken over by the Reconstruction Finance Corporation.

This institution, alphabetically known as RFC, undoubtedly represented the supreme effort of the Hoover administration to check the depression. Originally conceived as an emergency measure, it has grown steadily in importance and practically all subsequent efforts

to alleviate conditions, whether emanating from President Hoover or his successor, have made liberal demands upon this agency. As set up in the first place the capital of the corporation was established at $500,000,000, to be subscribed by the government, with authorization to issue debentures to the extent of three times its capital, but this was later increased by amendment to six and three-fifths times its capital, giving total available resources of $3,800,000,000. As of December 31, 1933, practically the whole amount was in use.

The purposes of the Reconstruction Finance Corporation were broad. It was authorized to aid in financing agriculture, commerce and industry but under the Hoover influence its resources were employed largely to bolster up banks, insurance companies, and railroads, which of course felt the effects of the depression in full measure. That the corporation was not conducted entirely without an eye to partisan advantage appeared when it was disclosed that Charles G. Dawes, vice-president under Coolidge and presiding genius in the affairs of the Continental and Illinois Bank and Trust Company, of Chicago, succeeded in getting ninety million dollars on a hurry call, but the loan was undoubtedly justified since it was the only means of averting failures which would have severely shaken the entire banking structure of the Middle West.

The early months of 1932 were critical. It was during this period that the gold drain was felt in all its severity, resulting in a steady decrease in bank deposits and the enforced closing of many banks despite the help rendered by the RFC. Naturally this affected confidence and hoarding appeared on a broad scale. At its peak the President estimated that it exceeded $1,600,000,-

000 and to this more than to foreign withdrawals was due the steadily weakening condition of the banks.

All in all, the President's seat was not comfortable during these eventful days. With economic disaster threatening he was subjected to constant sniping from Congress which, as a typical gesture, in January passed a tariff bill that left the rates practically unchanged but stripped the President of his powers under the flexible provisions of the original act. Mr. Hoover did not take kindly to this treatment and by retaliation or ill temper steadily managed to build up the grudge against him existing in the legislative branch. Hostilities were suspended long enough, however, to pass the Glass-Steagall Bill, which expanded the credit base substantially and made about $750,000,000 of the Reserve System gold supply available for other purposes.

In an apparent effort to keep itself in the limelight the Senate during April started its now famous Wall Street investigation and out of its first witness, Matthew C. Brush, drew the obvious but nonetheless startling admission that "no one was in Wall Street for his health", to be followed by the equally sensational observation that some of its activities were a "racket that made Al Capone look like a piker".

But the political tide was rising and Hoover was soon to be engulfed in a struggle for his political life. Unfortunately for him this effort was to be staged against an unsympathetic background, for as a prelude the President had to face a disconcerting situation growing out of the arrival of the Bonus Army in Washington. It afforded opportunities to make capital political mistakes and Hoover overlooked none of them. Aside from the tragic events resulting in the shooting of two members of the Bonus forces the entire affair has assumed a cer-

tain aspect of sardonic humor, for it appeared to be a visitation of Fate upon the President. Peculiarly gifted in the capacity to do the wrong thing at the right time, he was doomed in his handling of this delicate situation from the moment that the first rag-tail members of the Bonus Army straggled into Washington.

The Bonus question had plagued Mr. Hoover since the beginning of his administration. It originated in an act of Congress, adopted in the mood of fervor that swept over the country in the days when the troops were returning from over-seas, which authorized the issuance of a bonus to ex-soldiers in the form of certificates payable in 1945. Partly on account of economic distress and partly on account of a loose moral argument to the effect that the soldiers had been underpaid in comparison with the compensation of labor during the war, a demand for the immediate payment of these certificates either in whole or in part had arisen. In 1930 the question was settled by an act permitting the holders to borrow against the certificates up to half the amount of their face value. The President vetoed the bill but it was passed over his veto and a billion dollars, more or less, was paid out, without having, it may be said in passing, any visible effect on the depression. Now the ex-soldiers began to clamor for the balance and scattered groups set out for Washington to back up their demands in person. In April an advance guard of a thousand men arrived bearing a monster petition signed, they said, by some two millions "back home." The President refused to receive them but many congressmen gave ear. After all, the ex-service men had votes and their friends and relatives had votes, so what could a congressman do? The President got wind of what was

going on and issued a blast condemning the activities of the men.

"The government cannot be dictated to by organized minorities", he said wrathfully. "I know these actions do not reflect the will of the country and I refuse to believe that the will of the country is unable to reflect itself in legislation."

Doubtless Mr. Hoover was right, but he chose a poor way and a poor time to express himself. Congress submitted but the ex-soldiers came on. As the weather warmed up ex-service men headed toward Washington in growing numbers. Their jobs gone, their homes broken up in many cases, there was nothing to hold them back. Without any very definite notion of what it was all about, they came all the way from the coast, by automobile caravans, freight cars and plain hitch-hiking, picking up recruits as they went. The main contingent arriving in Washington some 2,600 strong, a commander was found in the person of Walter W. Waters, hot-headed and outspoken but not a revolutionary—"Hot Waters" he came to be known. The Army settled down in Anacostia Park, with the exception of the executive heads and some hundreds of personal followers who found quarters in an area of Pennsylvania Avenue where the buildings had been demolished to make room for a projected Treasury structure. Waters imposed strict discipline and the men liked it. It took them back to Army days. There was no violence or disorder and the Washington police had little to do. But the presence of the Bonus forces was too much for Congress. It dug up the Bonus Bill again. After less than the usual debate the House passed the bill; the Senate killed it. But the Army stayed on.

Up to this time the President had affected to ignore

their presence but now he instigated a movement in Congress to get the men out of Washington by offering to pay their way home, the cost of transportation to be charged against their bonus certificates. Some accepted and the army dwindled from a peak of 10,000 to about 6,000. Growing desperate as Congress adjourned, a body of men started down Pennsylvania Avenue to picket the White House. The police drove them back and two men were killed in a bloody riot. Fearing more trouble, the police in the last days of July called on the military authorities, who proceeded with a full complement of tanks, artillery and tear-gas bombs, first to clear out the Pennsylvania Avenue headquarters and then to drive the rest of the army out of its camp.

Thus far the President had managed to keep fairly well in the background. Now he suddenly took command of the situation and in an ill-advised effort to discredit the Bonus forces he called upon Attorney-General Mitchell to justify the government's action. All too promptly Mitchell rendered a report to the effect that most of the men were "criminals and radicals", but when the real facts came to light it appeared that there were few radicals among them and their "crimes" were largely restricted to traffic violations and other petty offenses. The effect was to make both Mr. Hoover and his attorney-general look ridiculous and the country gained a new sense of the President's incapacity to handle a delicate situation and of his inherent lack of sympathy with the victims of economic distress. In itself the Bonus Army affair had little bearing on the course of the depression but its political effect was considerable and it served to weight the scales still further against the President.

The remaining months of 1932 were given over

largely to politics. The President made his campaign for reelection and was defeated, the palm going to Franklin D. Roosevelt. In the traditional manner the months intervening between the election and the inauguration were a waiting period. Little was attempted; nothing was done, but economic forces moved on relentlessly. Liquidation continued, the strength of the banking structure was constantly undermined and weakened. All told during 1932, 2,430 banks closed their doors, with deposits in excess of a billion and three-quarter dollars.

In reactionary circles it is becoming the habit to say that the depression reached its low point and recovery set in about the middle of 1932, but to anyone whose memory runs back to this period there seems little ground for this assertion. It bears all the earmarks of propaganda. On the contrary the weight of evidence indicates that the low point was not reached until the bank crisis which ushered in the new administration and it was an open question whether recovery had actually set in a year later. The closing months of 1932 were months of deep depression. All the indices of trade were off. Fear reigned. It seemed that the worst was still to come—as indeed it was.

To one who seeks to gain a "close-up" of the depression as it had proceeded to this point, it is interesting to summarize a survey of a typical community as reported by the Committee of the Nation. The community in question was a middlewestern city of 100,000 population, industrious, thrifty, home-loving people. In addition to the usual complement of small concerns it boasted a big automobile plant and an automobile accessories industry, an agricultural implement plant, and overall, clothing and sewing machine factories. It was a busy,

hustling town, with seventeen local banks and nine building and loan associations, all of which were liberally conducted.

The community got an advance taste of the depression following a let-down in the operations of the farm implement plant starting early in 1929 and growing out of declining agricultural prices which directly affected sales in this field. The payroll of this plant was reduced from 3,000 to 300 workers and as a result before the end of the year deposits in the city's banks had dropped around five million dollars.

After the turn of the year withdrawals continued as business in other lines fell off and the banks were forced to begin liquidation of assets in a bad market. In the case of one small bank deposits were reduced from $1,700,000 to $700,000, calling for drastic liquidation at a heavy sacrifice. This was repeated in other instances and finally in order to save the situation one of the larger banks took over a group of smaller institutions.

By the beginning of 1931 rents had shrunk to less than half their former levels and real estate was a drug on the market. Mortgages were defaulted and building and loan contracts surrendered on every hand, the home owners losing their equities.

As unemployment mounted depositors continued to withdraw their funds in order to meet living expenses and the larger banks began to feel the drain. The largest national bank had pursued an aggressive lending policy and now it began to find it difficult to collect its loans. In previous times it had been accorded liberal treatment by the bank examiners but suddenly this policy was reversed and the examiners threw out some hundreds of thousands of dollars of loans which the bank considered good. From a position of $1,200,000 in the black its

condition was changed almost overnight to $1,000,000 in the red and the examiners called upon the management to make up the deficit. The president killed himself.

This unfortunate event was all that was needed to touch off the powder barrel. A run started and the bank closed its doors. The epidemic of suspicion spread and the largest State bank also went into liquidation. Being the depository of more than half the downtown stores, this failure slowed up all business in the community. By October only four banks remained open on an unrestricted basis. Followed now a drive for the liquidation of loans by the Federal Reserve Bank of the district. The member banks applied to the RFC for help but found that they could get it only on a ruinous basis. In the meantime the seepage of deposits continued, hoarding became general and finally, in January, 1933, a neighboring state declared a banking holiday and the local banks were caught with large quantities of uncollected checks drawn on banks in other states. Within three weeks the second largest bank in the city lost 56% of its deposits and two other banks failed. At this point in order to save the remaining banks the Mayor of the city declared a moratorium, which was not dissolved until the President took action.

At the last bank call a community which had had 55 millions in deposits to rely upon found itself with only six millions left and one and a half million of that was unavailable for credit purposes as it was in the form of "new deposits" which the banks accepted for "safe-keeping" only.

Summing up the results, this survey concludes:

"Bad as is the economic situation, what has happened is worse than losing money. Confidence has been destroyed, and with it ambition, hope and inestimable

human values. Worst of all, people's pride has been taken from them. One of the established principles of social relief work is to help a family to work out a reorganization. No matter how poor a family's circumstances in normal times, there is usually some plan for the future. When you ask people now about their plan, the older ones stare at you blankly or return a cynical laugh. They have none. The younger generation simply sneer: 'Why save? Why plan? See what happened to Dad'.

"Respect for thrift, inculcated by years of education, has been largely destroyed. Children who lost their savings in banks lost faith in our institutions. The home-owning ambition has been shattered. All of this disaster and suffering has bred the philosophy: 'Eat, drink and be merry, for tomorrow we shall probably be broke'.

* * * *

"Nearly every employer and merchant is a bank stockholder. The weaker ones have been ruined by the slow disintegration of business. Ninety per cent of them will be bankrupted by bank stock assessments. With the leadership of the community thus impaired and helpless, only the large percentage of home ownership provides a safeguard against destructive radicalism. The city has experienced one menacing communist demonstration. Unemployment, loss of deposits and homes, have created a feeling of hopelessness that could easily be turned to desperation by radical agitation or demagogic appeals to mob psychology suggesting to labor that it has been mistreated.

* * * *

"In a community of homes and home ownership, real estate is no longer an asset; it has become a liability.

"Twelve hundred families have doubled up. Vacancies approximate the same number, showing that the community was not over built.

* * * *

"With no appreciable decline in population, births were reduced from 2,500 in 1924 to 1,500 in 1932.

* * * *

"All private educational and charitable institutions have been crippled by having their funds frozen in closed banks, or through default of interest on investments in local mortgages and securities.

* * * *

"The local University, largest boarding school in America, formerly had 3,000 attendance and as many more on waiting list. This year's attendance is 2,500.

* * * *

"Master bedrooms in one of the finest mansions in the city are rented to paying guests at $4 a week. Many formerly wealthy or well-to-do families take lodgers at $2.50 a week.

* * * *

"At the peak of the unemployment 9,400 families (average 4⅛ persons per family) were on the relief rolls within the county. Including those cared for in private institutions and by personal charity, well over 40,000, or 25% of the entire population, were receiving assistance. The relief administration estimated that 40% to 50% of those receiving assistance had money in closed banks or building and loan associations.

* * * *

"Poor Relief Tax Levy: 1929–30—1 cent
1930–31—3½c
1931–32—21½c
1932–33—17c
1933–34—32½c

"Pay envelopes at the peak of prosperity held upward of three million dollars every month. Now the monthly payroll is less than $500,000.

* * * *

"Postal Receipts: $971,000 in 1928, $675,000 in 1933. For September 1933 they were 11.23% below September, 1932.

* * * *

"Three large modern hotels, formerly well filled and prosperous, are all in control of creditors' committees; not one paying its bond interest; gross receipts cut in two.

* * * *

"A modern downtown office building in the best location, free of mortgage, for which the owner was offered $450,000, is now renting on a percentage basis; gross income fails by $2,000 a year to meet the taxes.

* * * *

"Two stores which rented for $750 and $600 a month bring $100 each; owner unable to pay the taxes.

* * * *

Tax Delinquency: For county and city, July 1, 1933—$1,159,000; will be increased (estimated) to $2,525,000 by end of 1933.

* * * *

"Bank Deposits: (millions of dollars)

	Dec. 31, 1929	Dec. 31, 1930	At closing	June 30, 1933
Banks	$35	$32 1/3	$21	$20 *
Building & loan	20	17 2/3	18	15.7

* Of these $20 million in bank deposits only $4½ million were available as unrestricted bank circulating medium.

XXIII

THE NEW DEAL

WITH the coming of Roosevelt the era of inaction came to an end. Embodying a ringing pledge of immediate action in his inaugural address, the new president committed himself without reservation to a decisive effort to end the depression. Just what form this action was to take in all probability was unknown to him when he gave his pledge but events quickly decided his immediate course.

At the moment that President Roosevelt stepped into the White House—in fact, while he was still delivering his address from the Capitol steps—the banking system was going into collapse. The sound was in every ear. Finding their banks unable to meet the demands for withdrawals, the States of Michigan and Maryland had declared a "banking holiday." Five other states were prepared to follow their lead. During the last thirty days of the Hoover tenure of office 241 banks, state and national, had closed their doors and since the first of January 389 banks with total deposits of almost a quarter of a billion. Notwithstanding generous aid from the Federal Reserve and RFC authorities, it was evident that the entire system was on the verge of disruption and the resulting economic dislocation was fearful to contemplate. As it was, cash was rapidly going

into hiding. Everywhere banks refused to accept checks drawn on banks in states protected by the banking holiday. Fearing similar action by other states and doubting the soundness of their fellow institutions, all banks began to accept checks for collection only. In states where the holiday existed business concerns were unable to obtain funds for payrolls, debtors were unable to secure cash with which to meet their obligations. Employees were without the means to take care of their immediate needs. Rents and grocers' bills went unpaid. Except where credit was extended householders went without food or other supplies. A few more days and chaos would have been upon us. Then the President took the first step to redeem his pledge of action. At eleven o'clock on the night of March 5, his second day in office, he declared a national banking holiday of four days, subsequently extended, and coupled this with a practical program for the prompt relief of the banking situation. The response was immediate. There was new hope. Realizing that at the head of the government was a man who was willing to do something, or at least to try to do something, courage oozed back, confidence began to appear.

As the days passed it became evident that constructive steps were being taken. In rapid succession President Roosevelt urged upon Congress and obtained the adoption of the following measures:

1—The Economy Bill, which reduced the government's expenses some half billion dollars and gave the President considerable latitude in dealing with the vexing matter of veterans' allowances and compensations.

2—The Agricultural Adjustment Act, designed to prevent over-production and increase the prices of farm products by placing a processing tax on various com-

modities—wheat, cotton, corn, hogs, rice, tobacco and milk products—and passing the proceeds along to farmers who agreed to curtail production.

3—The Securities Act, a reform measure intended, in the President's words, "to correct some of the evils which have been so glaringly revealed in the private exploitation of the public's money".

4—The Farm Mortgage Act, providing for refinancing farm mortgages at lower rates of interest.

5—The Home Owner's Loan Act, extending to city real estate as well as rural property the benefit of lower interest rates on mortgages.

6—The Banking Act, reforming banking practises in many important respects, including the abolishment of security affiliates, segregating the functions of investment banking from those of commercial banking and establishing a guarantee of bank deposits—up to an amount of $2,500 only, to begin with, but increasing substantially later.

With the exception of the Agricultural Adjustment Act these were essentially measures either of relief or reform and they did not strike at the heart of the depression, but the President and his advisers were evidently marking time in this direction merely in order to formulate their ideas, for as soon as these measures were out of the way President Roosevelt was ready to tackle the larger problem.

Apparently in order to lay a broad basis for constructive measures the President attacked first the fundamental problem of deflation and he attacked it from the standpoint of the money question. He suspended the gold standard, which was blamed in no little part for the existing maladjustment between prices and debts. This had been done successfully in other countries,

notably in Great Britain, which was already beginning to feel the good effects of dropping gold, as it did in September, 1931. If the dollar were permitted to depreciate in terms of gold, it was argued, higher prices would be obtained for the things that the dollar bought —sound enough in theory but, according to the old school of economists, dangerous in practise. At all events the gold standard was suspended, not to be restored until some eight or nine months later when the dollar reappeared shorn of 40% of its gold content. In the meantime prices had risen and fallen and risen again, resting at the time of stabilization somewhere around 16% above where they were when we went off gold. But it is too early to say what the ultimate effect will be.

Legislators seem to be born inflationists, for no sooner had the President got the gold question disposed of than Congress adopted a measure of its own that went the President one better. It was in the form of an amendment, known as the Thomas Amendment, which was attached as a rider to the Farm Bill and it gave the President power (1) to provide for credit expansion by arranging for the purchase of $3,000,000,000 of government bonds by the Federal Reserve Banks, (2) to issue the same amount in greenbacks, (3) to authorize the unlimited coinage of silver at a ratio with gold to be fixed within his discretion and (4) to reduce the gold content of the dollar by not more than 50%. It was to this act that the President resorted when he stabilized the dollar at 59.06 cents and when he later took action to "nationalize" silver.

Dismissing the money question, for the time being at least, and having more or less fruitlessly endeavoured to adjust his developing program to world conditions through the World Economic Conference, Roosevelt

turned his attention resolutely to the problem of industrial recovery. Emerged then a three-point program, of which the spearhead was the NRA, whose alphabetical cognomen and "blue eagle" symbol have since become an ever-present part of industrial organization. In the same act which created the NRA was incorporated the beginning of a broad program of public works, which rested upon the expenditure of some $3,300,000,000. Partly aimed at the problem of unemployment this measure was also intended to stimulate activity in the heavy industries, which in the past invariably have led the way out of depression. As the third point in the program a substantial expansion of credit was effected by authorizing the Reconstruction Finance Corporation to invest up to one billion dollars in the preferred stock of national banks. Bank credit, public works and the NRA were the three forces on which the administration determined to rely in its battle against the depression and all have since been called into play in constantly increasing measure, but the NRA has been the most potent and visual factor since its ramifications have extended into all branches of industry and have substantially modified the industrial structure. Broadly speaking, it has operated to maintain or increase prices on the one hand through the control of competition while on the other it has been used to increase employment through the various codes. Originally designed to provide self-regulation of industry by the formulation of "codes of fair competition" establishing standards of wages and hours and guaranteeing to labor the right to "bargain collectively," the program has drifted more and more toward government regulation. At the start these codes were devised by the industries concerned but lack of agreement has forced the federal authorities

to intervene in many instances with the result that the government now dominates the situation. By the end of 1933 it was estimated that practically 90% of all employers in the country were enrolled under the "blue eagle".

The end of the President's first year in office undoubtedly found the country well advanced in the common effort to end the depression. During this period commodity prices had advanced about 20%. Deflation had been halted. Business was on the upgrade. But the problem of industrial unemployment still existed, though in lesser degree. A determined effort had been made to meet this situation through the Civil Works Administration, which was an outgrowth of the Public Works Administration and expended some 400 million dollars in direct employment on civil projects. Much of this work served no useful purpose and on the whole it was inefficiently done, but employment was given to four million persons or more and this has tended to build up purchasing power and so to stimulate trade. It is the expectation of the Administration that this work will be gradually eliminated; in fact, much of it has ended and it is hoped that this labor will be absorbed either in public works or by industry in the natural process of recovery.

Whether this occurs remains to be seen but in the meantime it may be noted that at the end of the first quarter of the President's second year, as of June 30, 1934, progress toward recovery was reported by Donald R. Richberg, Secretary of the National Emergency Council, as follows:

40,180,000 persons were employed, an increase of 4,120,000 over March 1933, and of 2,320,000 over June, 1933.

Total manufacturing wages had increased from $96,000,000 a week in the above period to $132,000,000, or 37.5 per cent.

The average work week in industry had been reduced six hours and the average hourly earnings had been increased about 26 per cent.

Living costs had increased 9.6 per cent from June, 1933, to June, 1934, leaving a net increase of 25 per cent in the purchasing power of wage-earners.

Net profits of 506 corporations of all types had risen from $157,579,000 in the first half of 1933 to $408,572,000 in the first half of 1934. Net profits of 402 industrial companies had risen 600 per cent in the same period.

Business failures in the period February to May, 1934, were more than 40 per cent lower than in 1929.

In summarizing the events of this epochal period it is impossible to ignore the repeal of prohibition, which was an essential part of the Roosevelt program. Raised to the dignity of a major issue during the campaign, Congress anticipated his purpose by repealing the Eighteenth Amendment at the "lame duck" session in December, 1932, but it did so entirely under the spur of his prodding. By December 5 of the following year Repeal had been ratified by the thirty-sixth state, Utah, thus, with minor modifications, restoring the liquor question to the status that it had before January 1, 1920, and reestablishing an industry that has had a considerable part in bringing about such recovery as may be noted to date.

So much for the credit side of the ledger. As the first year of the New Deal came to an end and the President departed for the Summer White House at Hyde Park, New York, it was obvious that the fundamental prob-

lem was still unsolved, although some progress had been made in this direction. Consumption still lagged and no effective means had been found of building up purchasing power in volume. The dog was still chasing its tail. Demand creates production; production creates purchasing power; purchasing power creates demand. But where does the circle start? And who is going to start it? The President says we will spend or give until purchasing power is built up and from that point things will right themselves. Perhaps so. But what of the cost? Already a mountain of debt has been placed upon the backs of future generations—some ten billions, according to current estimates. What if this vast program of expenditures is ineffective and other billions must be found to carry the effort through to a successful conclusion? Where are they coming from? If the plan works, it is argued, this question will take care of itself. If these billions are poured into the hands of the public, if they are not absorbed in the liquidation of past debts, if confidence is restored and the beneficiaries of government largess turn their bounties back into the channels of trade, if this money is spent and not hoarded, consumption will increase, factories will resume operations on a normal scale, employment will return to former levels, profits will accumulate and from these various sources the funds will become available to pay off this mortgage on the future or, if need be, to expand the process into broader fields.

True enough, but the "ifs" loom large. And if the plan fails the only alternative is vast social changes and a lowered standard of living for generations to come.

XXIV

WHAT IS IT ALL COMING TO?

THAT A VAST CHANGE has come over the American scene is evident to the most casual observer. The old America is no more. The America of endless resources and boundless opportunities, where wilful men took what they wanted and weak men footed the bill, came to an end with the crash of 1929. Doubtless it was already fated to end, and the new order was even then in the making but, inevitable as it was, its emergence has brought with it doubts and perplexities. Where will this new order lead? Does the collapse of the old order signify merely the end of an era or is it the break-down of a system?

For a hundred years or more the country has pursued a policy of rugged individualism. We have accepted the Profits System in its entirety and it has been treason to question its beneficence.To those who have contended that the system would lead only to ruin we have turned a deaf ear. In place of arguments we have countered with epithets. Socialists, communists, "crackpots" have been the least of these. But at the long last we have had to face the hard fact that the system has ceased to function, that it has led us into a morass from which there seems to be no escape save through the adoption of a

different system or economic philosophy. How far will the new order depart from established principles?

If existing tendencies have any significance it is possible to draw these conclusions:

1—There is a levelling process at work which promises to act as an effective brake on individualism and is likely to bring about a substantial redistribution of wealth in the future.

2—In so far as possible the element of chance is to be eliminated in all our relationships. In place of a "hit-or-miss" economic system we are developing a planned society in which production and consumption will be more evenly balanced.

3—As a corollary this carries with it the idea of a regimentation of many industrial activities, along with which goes a ban on all forms of speculation, including margin trading and trading in commodity futures.

4—Mass production is to be brought under control, to a point at least where it will not upset economic equilibrium.

5—The "underdog" is to get a better "break".

Up to this point it is a fact that the changes imposed upon the system have been largely in recognition of shifting moral values. Essentially the New Deal is a "Square Deal", but there is an economic undertone which is swelling in volume. Gradually there is developing a realization that it may not be impossible to trace our economic ills, in great part if not entirely, to a system that placed a premium on mass production. That the machine produces goods in greater volume than it creates purchasing power to absorb is not open to question and the constant piling up of mass production on the one hand coupled with a whittling down of purchasing power on the other has had much to do with the

economic impasse that exists today. As a whole the world is geared up to produce more goods than it can consume and it is not a simple matter to find a formula that will correct this lack of balance.

Off hand it may be argued that the solution lies in building up purchasing power through decreasing the hours of labor without diminishing pay. But this will add to costs and if prices increase the main object is defeated. The increased cost of production has to come out somewhere along the line and the trend seems to be to take it out of profits. Doubtless capital received more than its just share of profits during the post-war era and it is likely now to face a period of diminishing returns. It is quite possible that the pendulum will swing back too far and that injustice will be done, but that is not infrequently the fate of those who have sought to profit at the expense of others.

In a broader sense, however, the tendency is to bring about a correction of inequalities which have hampered the weak and small and put a premium on power and ruthlessness. The conditions that enabled two per cent of the population—and by no means the most deserving two per cent—to acquire control of eighty per cent of the nation's wealth are approaching an end and to this extent reform is in the saddle. As Secretary Ickes put it not long since:

"We used to brag of American prosperity. We can have no prosperity while American women slave in sweat shops and American children grow up in squalor and American men are prey to the whims of an industrial system that runs wild. We should be ashamed of a prosperity like that. We shall not have the real thing until we adopt the new set of political concepts which are now

taking form after the collapse of the old set and the misery of millions of people.

"That is going to be a hard thing for us to do. We are individualists by long inheritance. We won't give up our right of individual action and our tradition of independence. We resent regimentation and collectivism, and properly so. But the time has come for us to make the discovery that the highest manifestation of intelligent individualism is willingness to co-operate with our fellow citizens for the common good. We can so co-operate, if we will, and still be a free people—we can be freer than ever before; the freest people that ever lived. We now have our chance. How long our chance will last is a question.

"It will mean surrendering something for the sake of gaining a benefit which we have never had in the past; a larger benefit than we can ever gain in the old way of 'every man for himself and the devil take the hindmost'. It will mean recognizing, as a people, the iron truth that no one of us can be secure unless security extends to the least member of the community."

To say that this is revolution is inexact. It may lead to revolution and whether President Roosevelt will be its Lenin or its Kerensky is beside the question. In plain fact, he will probably be neither but is likely to finish his task and pass on the baton of leadership to other hands. Whose hands? you will ask. Well, Wallace, for one—Henry A. Wallace. He is young, able and ambitious. He has ideas, imagination and a sense of humor; his feet are on the ground and, as the chief dispenser of the dole to a vast section of the populace, he will inherit power.

But, ignoring such speculations, interesting as they are, one thing is certain—We are still in a period of

transition. The end is not yet and no man can foretell with definiteness the final direction that events will take. True, there are many who are ready to point the way. "Back to the old order", says the reactionary. "Let us hold fast to established principles", says the conservative, while the radical looks to revolution and the politician to his job. But the politician and the reactionary are both losing caste. They belong to the predatory classes and the people know them. The real struggle lies between the radical and the conservative, or—shall we say?—between the liberal and the conservative, for the issue is not so likely to be between the "Haves" and the "Have-nots" as between the "Gives" and the "Give-nots". At all events it looks as if the under-dog is due for something more than a "break" and that *something* is coming out of someone's pocket. Naturally the someone in question is not going to like it and they will have to fight it out, as has happened so often in the history of civilization. In this instance, it is to be hoped—and there are some reasons to believe—the issue will be settled in the traditional American way, which is with ballots rather than bullets.

But, look at the situation as you will, it is possible to foresee only a bitter political struggle, with the power of numbers on one side and some measure of justice on both sides. Under such conditions any discussion of individual rights or national well-being is academic. By the same token economic considerations will figure in the turn of events merely as arguments to strengthen the case of one side or the other. The form which the new order will ultimately take will be determined by the interests of the greater number or the better organized.

In these days we hear much of recovery but it is to be doubted that this is the only goal, or even the main ob-

jective, which those who control the course of events have in mind. In their larger program there are abundant signs that reconstruction is placed ahead of recovery, as it well may be. Certain it is that there would be little to gain from recovery itself if it led only to a return of the same conditions from which we have suffered so grievously. To an extent these identical conditions have been legislated out under the New Deal but there is no assurance that parallel conditions may not come into being within the scope of existing legislation.

To illustrate: As this is written (late in August, 1934,) there are some indications that we are on the verge of an upswing in business, which may attain the proportions of a real "boom". The pump has been primed. It is possible that inflation is about to do its work. If so, the old familiar forces will again assert themselves. Buying will start. Consumption will increase. Wholesale and retail merchants will begin to order ahead. Factories will speed up production. Men will go back to work. Profits will accumulate. Money will be easy. Confidence will return. As promising as any such revival would be, it is to be doubted that it would be deep-seated or long-lasting, since the movement would be based upon artificial stimulants rather than on the natural processes of recovery. At the best it would be short-lived, but during its course it should be intense enough to end all pretense of emergency and with the passing of the emergency the legal basis for existing restrictions on production would disappear, landing the AAA, NRA and other similar agencies in the scrapheap—where it is possible they are headed in any event. In the absence of these deterrents it is likely that we should witness a repetition of the post-war "boom" of 1919. Inflamed by mounting prices, farmers

and manufacturers alike would step up production rapidly, thereby absorbing large numbers of the unemployed—but not all, by any means, since it is doubtful that the heavy industries would be affected or that export demand would develop in volume, and these are factors that have a definite bearing on employment. But, even after making such allowances, there would still be a substantial gain; purchasing power would increase, corporate profits and dividend disbursements would be large and, if the parallel runs true, would be diverted into speculation in one form or another. Under existing restrictions it is possible that stock market operations would be kept under control but this would not apply to commodities or real estate. There would be land booms, reminiscent of the Florida land craze, and commodity prices should go sky-high. Rising prices, in turn, should further stimulate output in all lines and in the end, after the orgy of speculation had spent itself, we should find ourselves face to face with the same glut of over-production with which we have had to contend in recent times.

At this point it may be well to pause and remind ourselves that this is pure hypothesis. Perhaps it were better to say that it is mere guess work. It is quite within the scope of possibility that there will be no revival of business at this time or, if it comes, it may exhaust itself in a stock market spurt, as it did in the Summer of 1933. But soon or late, if there is no change in present policies, recovery will come and, when it does, it should assume something of the aspect that we have outlined here, unless it should take a wildly inflationary form, in which event the movement would be pyrotechnic in its course and the readjustment correspondingly more drastic.

To thinking men recovery in such form—a false pros-

perity—would be worse than no recovery at all. Affording opportunities for a few to "clean up" in speculation it would leave the masses as deep in the slough as they are at this time and the social and political repercussions might well be disastrous. Recognizing these dangers, forward-looking apostles of the New Era are bending their energies toward devising measures that may avoid this outcome, even at the sacrifice of speed in recovery. That they will succeed is to be doubted, for time and the exigencies of politics work against them. To candid observers it is difficult to see how the New Order can be established in its fulness until at least one more crisis has been faced and overcome.

But, despite this, a virile element in the Roosevelt administration is committed to a program of reconstruction which is designed to bring about permanent recovery irrespective of intermediate cyclical movements. In doing this their objective is to solve the problem from the bottom rather than the top. Lasting recovery, they argue, can be attained only through a rebirth of the purchasing power of the masses and they have set out to accomplish this result by means which have thrown a fright into the protagonists of the old order. In their eyes the economic structure is a pyramid resting upon the farming population at its base and extending up through successive strata of laborers, white collar workers, professional people, investors and managers. To attempt to fertilize the lowest strata by infusing a transient prosperity into the two topmost layers, they hold, is a hopeless task. This is what the "trickle-down-from-the-top" school of economists of the Hoover era sought to do and they failed. The new school proposes to invert the pyramid and let the prosperity of the many at the inverted base trickle down to the few at the bottom.

This is good physics and it may prove to be sound economics, but in the process some established notions are likely to go by the board. As a part of the process, incidentally, it may be necessary to go so far as to find a substitute for the Profit motive—"Sacred Cow" of the old order. With all its boasted achievements, in the last analysis, this vaunted incentive to progress has resulted only, in the words of the President, in creating a "generation of self-seekers" whose greed and recklessness have plunged us into disaster. Is there a place for it in this New Day?